Historical Disenfranchisement and Modern Money Laundering: A Colombian Case Study

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1. Introduction:

Imagine a nation's natural capital being exploited to mask the dark underbelly of organized crime. In Colombia, this is happening in a twofold manner: through the exploitation of a large informal gold mining sector and the vulnerable people working within it and by the large-scale production of cocaine, which has become one of the primary funding sources for Colombian organized crime groups (UNODC 2023; GIATOC 2021, 3). In turn, gold is an increasingly preferred vessel for international schemes of laundering illicit proceeds (FATF-APG 2015, 6-9). The sheer number of cases that showcase this vulnerability of Colombia to illicit economies, which fuel a seemingly never-ending scene of organized crime, must be alarming to every regulator striving to put a dent in illicit financial flows.

The exploitation of gold to mask the dirty origins of drug-related revenues is not only a 21st-century phenomenon. In 1994, the Colombian Newspaper "*El Tiempo*" published a report on the arrest of 11 businessmen for their involvement in the laundering of more than $100 million US dollars originating from Colombian drug cartels in a triangular scheme involving actors in Colombia, Panama, and Italy (El Tiempo 1994). Contemporary reports show that the *Clan del Golfo*, Colombia's largest operating drug cartel, has turned to gold mining to launder drug money by manipulating mining operations and using front companies to integrate illicit funds into the formal economy (Villalba 2021).

Another alarming investigation by the Medellín-based investigative research network InSight Crime exemplifies the innovative tactics employed by launderers. It revealed that Colombian gold traders employed the identities of fake miners, including deceased individuals, to launder millions of dollars in drug revenues (InSight Crime 2019). These schemes are part of a broader systemic issue where legal exporters, seemingly legitimate, play a critical role in integrating illegal gold into the legal market (Yagoub 2014). Showcasing the broader systemic gravity of this issue, Global Financial Integrity published a report underscoring the susceptibility of the Colombian gold sector to illicit financial flows. It is of specific interest to this research that the report references rural poverty as one of the main drivers for illicit activity, frequently exploited for money laundering purposes (Global Financial Integrity 2021). This latter instance of rural poverty unites both illicit markets, cocaine production and gold mining, regarding their sustainability in the Colombian context. As the thesis will continue to argue, the historically grown nature of poverty and socio-economic disenfranchisement enables both markets to grow and complement each other.

In this light, this thesis explores the intricate dynamics of anti-money laundering (AML) efforts within Colombia, juxtaposing the sophisticated legal frameworks adopted in line with international standards against the stark realities of historical burdens and socio-economic vulnerabilities rooted in the country's colonial history. Specifically, this thesis explores how remnants of the colonial history of Colombia are impeding adequate AML supervision within its jurisdiction. It will go on to argue that, without policies to address the sustainability of illicit economies in the country – which is rooted in the historical disenfranchisement of vulnerable populations, the Colombian AML regime is positioned to fail, regardless of how elaborate the technicalities might be. AML efforts need to dismiss state violence as the only means of mitigation and, instead, need to consider how historically disenfranchised communities are actively coerced to provide their labor for illicit economies merely as a means of subsistence.

The inception of Colombia's contemporary AML policies can be traced back to international initiatives like those spearheaded by the Financial Action Task Force (FATF), which have sought to standardize the approach to combatting financial crime globally. However, while these efforts have established a formidable legal scaffold, the actual application within Colombia reveals significant gaps – particularly when confronted with the country's deep-seated issues of inequality, informal economy, and the remnants of a colonial societal set-up. By investigating the literature on global AML efforts and critically reviewing the international and local regulatory frameworks, this thesis aims to add some nuance to the existing literature on the complex interplay between international AML standards and Colombian socio-economic realities.

Employing a multi-dimensional approach, this research paper aims to dissect the layers of AML enforcement in Colombia. The thesis builds a detailed picture of the current fertile ground for Colombian organized crime and its impact on AML efforts by critically analyzing policy documents, FATF recommendations, scholarly articles, and case studies. This serves as the basis for assessing the effectiveness of the implemented measures and identifying the persistent gaps in policy enforcement and efficacy. Moreover, this analysis examines case studies of contemporary instances of land conflict and dispossession, illuminating the practical implications of policy weaknesses and how they relate to continuing colonial practices in the contemporary era.

The methodological approach of this thesis incorporates both qualitative and quantitative research methods to provide a thorough exploration of the subject matter. The qualitative analysis examines the historical narrative that has shaped Colombia's socio-economic structures, influencing current policy effectiveness. Meanwhile, quantitative data from official reports and academic studies offer a statistical foundation that supports the evaluation of the impact of AML policy. They are used not only to identify trends in money laundering activities but also to showcase the contemporary socio-economic divide within the country, which is vital in laying the foundation of the structural argument around the sustainability of illicit economies. This dual approach ensures a balanced understanding that highlights statistical realities and contextualizes them within Colombia's unique historical and socio-economic framework.

The main argument posited in this thesis is that, despite Colombia's rigorous adoption of international AML standards, the effectiveness of these measures is critically undermined by historical and socio-economic challenges and systemic vulnerabilities. These challenges include entrenched poverty, a significant informal economy, and rural areas encompassing illicit economic activities, which are not merely remnants of past policies but ongoing issues that actively shape the regulatory environment. As such, the thesis advocates for a tailored approach to AML efforts in Colombia, suggesting that addressing the root causes of vulnerability—such as inequality, informal economy, and regional disparities—could significantly enhance the effectiveness of AML measures.

To this end, the thesis makes multiple proposals aimed at improving Colombia's AML framework, including the enhancement of formalization efforts in the economy –particularly in sectors prone to money laundering such as gold mining, increased investment in regional development to reduce socio-economic disparities, and the fostering of institutional capacities to ensure more consistent and effective policy implementation within this jurisdiction. These recommendations are based on the understanding that a more holistic approach to AML, which incorporates socio-economic development and historical rectification, will be essential in mitigating conditions fostering financial crime.

In conclusion, this thesis seeks to contribute to the broader discourse on financial crime prevention by exploring Colombia's AML efforts in a global and historical context. By aiming to provide actionable insights that can inform policy revisions and implementations, this thesis ultimately contributes to more effective strategies in combatting money laundering within Colombia and in comparable contexts globally. This research underscores the necessity of integrating socio-economic considerations into the development of AML strategies and advocates for a paradigm shift towards more inclusive and context-sensitive policy frameworks, as opposed to the blanket approaches usually proposed by international governing entities.

2. Literature Review:

2.1. AML Globally:

The following section on global AML efforts gives an overview of the international efforts to combat money laundering, focusing on the impact of money laundering in general, the policy frameworks created to mitigate these, and scholarly critiques towards these policies. Addressing criticisms of the FATF, including its vague objectives and lack of adaptability to specific national contexts, the literature stresses the need for AML policies to be tailored to individual countries' unique risks and conditions, arguing that a one-size-fits-all approach is insufficient.

2.1.1 Money Laundering: Definition and Impact:

Money laundering (ML) disassociates illicit activities' proceeds from their ‘dirty’ origins, creating a wrongful legitimate appearance (Jojarth 2013, 17). This process is typically facilitated by a series of money flows that are categorized into placement, the step during which money is first introduced in the licit financial system; layering, typically a series of smaller transactions attempting to obscure origins; and integration, which is the step of funneling the previously obscured volume into legal proceeds. Others describe money laundering practices as the imitation of a value-creating activity that does not exist and is merely used to transform illicitly sourced assets in a way that allows for their introduction into the legal spheres of an economy (Tubb 2020, 143).

International standards and regulations to combat ML have increased in count and scrutiny since the early 1990s, partly due to an increased western-led effort to combat global drug production (Tsingou 2010, 618-19). Estimates of the impact of ML on the global economy typically revolve around 2-5 % of global GDP, which is around $3 trillion US dollars in absolute terms (Abd al-Hay 2023, 2; Jojarth 2013, 17). While some scholars highlight the limited effectiveness of the current AML regime, stating estimations of its impact at around 0.1 % (Abd al-Hay 2023, 2), others point out that cost-benefit analyses are always obsolete in the AML/Counter-Terrorism Financing (CTF) context due to its secretive nature (Tsingou 2010, 622; Sharman 2011, 6-7).

2.1.2. The Policy Perspective: The Financial Action Task Force

Following its inception in 1989, the Financial Action Task Force (FATF) compiled a comprehensive framework to set international standards in combatting ML and CTF globally. This framework consists of 40 FATF Recommendations, complemented by 9 Special Recommendations, aimed at establishing legal measures to protect the international financial system from illicit use, explicitly regarding AML and CTF. The FATF's 40 Recommendations – introduced in 1990 and revised in 1996, 2003, and 2012 – serve as an international standard for combating ML. It provides regulatory recommendations that its member countries are urged to implement to tackle ML effectively.

Regarding the legal system and law enforcement agencies, countries are urged to criminalize ML in alignment with the Vienna and Palermo Conventions, applying the crime of ML to all serious offenses to encompass the broadest range of predicate offenses (FATF 2023, 12). The 40 Recommendations emphasize confiscation and provisional measures, where nations should have policies and operational frameworks prioritizing asset recovery domestically and internationally. This includes, but is not limited to, measures for identifying, tracking, and evaluating illicit financial flows and enabling the freezing, seizing, and confiscating of criminal proceeds and property of corresponding value (FATF 2010, 10).

To prevent the misuse of the financial system, the FATF has established guidelines for customer due diligence, record keeping, and reporting of suspicious transactions. Financial institutions are expected to identify their customers, maintain records for a minimum period, and report any transactions they suspect are related to ML or terrorist financing (FATF 2023, 10/11). Moreover, targeted financial sanctions related to terrorism and terrorist financing must be implemented by countries in compliance with United Nations Security Council resolutions. This entails freezing funds or other assets of individuals or entities involved in terrorism, ensuring no funds are available to them directly or indirectly (FATF 2023, 13/24/40). It is important to note that the FATF's focus extends beyond the traditional banking sector to include non-financial businesses and professions, specifically non-profit organizations. The FATF recommendations include suggested policy implementations that increase the transparency regarding beneficial ownership and arrangements of legally responsible individuals to prevent misuse of corporate structures (FATF 2010, 11).

The 9 Special Recommendations expand the regulatory framework to combat Terrorism Financing (TF). They include measures such as the criminalization of TF, but also more in-depth recommendations such as the establishment of domestic and international measures for freezing and confiscating terrorist assets and ensuring that non-profit organizations are not misused for TF (FATF 2010, 13/14). Special attention is given to alternative remittance systems, wire transfers, and cash couriers to prevent the misuse of such services by terrorist organizations or potential collaborators. Countries are encouraged to license or register money or value transfer services, including those operating through informal systems (FATF 2010, 17/18).

At face value, this framework demonstrates the FATF's commitment to a multifaceted approach to combating ML and TF. However, the FATF’s approach has also received criticism from the academic literature and fellow international organizations such as the International Monetary Fund (IMF) and the World Bank (Sciurba 2019, 107-109). The main points of critique concern a lack of a transparent methodology and clearly defined objectives. This makes it challenging to measure the actual effectiveness of established AML/CFT systems. Furthermore, the IMF has negatively remarked on the generally vague and underdefined nature of FATF recommendations, stating that there is a need for a clear definition of critical concepts and assessment standards (Sciurba 2019, 108). Moreover, this warrants a need for risk assessments to be specifically tailored to the risks faced by individual countries, which in turn could help establish a more defined methodological approach.

Concluding the critiques, there is a demand for more measurable results and enhanced transparency in the implementation of the FATF Recommendations – which involves the establishment of a clearly defined systematic and methodological approach for country assessment, more tailored to the specific risks that each country faces (Sciurba 2019, 109). This will be addressed later in this essay, as it is an interesting consideration when discussing the effectiveness of AML regulation in the Colombian context.

2.1.3. The Scholarly Perspective: Academic Literature on AML Efforts

As exemplified by the previous discussion of FATF's regulatory frameworks, global ML efforts have evolved significantly over the past decades, reflecting an increasing international consensus on the need to combat financial crimes effectively. The following section will focus on scholarly contributions that explore the history, successes, failures, and limitations of AML efforts, which are used to point toward the main argument of this thesis. Namely, it is necessary to have policies that go beyond the internationalized efforts of fighting financial crime and consider national risk contexts and their placement throughout the ML value chain.

Beyond the points of critique that other international institutions voiced regarding the FATF framework, Sciurba presents a comprehensive overview of the AML framework in the United States and the impact US internal policies had in driving international efforts of anti-financial-crime (Sciurba 2019, 50). Analyzing the history of US regulations on counter-terrorism and anti-financial crime efforts illustrates the extraterritorial effects of these policy changes, specifically the Patriot Act, which accelerated and intensified the enforcement of US sanctions outside of their jurisdiction (Sciurba 2019, 44/45 + 51). This excursion shows how, in their conception, AML efforts were mainly driven by domestic US interests – providing valuable insights into how a blanket approach, negligent of national particularities, was created.

Similarly, other scholars question the proportionality of ever-expanding AML measures regarding the perceived threat to national security (Turner and Bainbridge 2018, 218). The FATF Recommendations are critiqued regarding their general effectiveness, highlighting that the drafting of policy reports was rushed and with little academic rigor (Turner and Bainbridge 2018, 216). This is an essential consideration in this research, pointing to the limited effectiveness of the one-size-fits-all solution the FATF suggests. Moreover, further considering the previous findings of AML efforts being a US-led initiative warrants a reconceptualization of these policies to be built for, as opposed to on behalf of, the countries in which they are implemented.

Further emphasizing the international scale that money laundering has reached over the past decades, research has been conducted into globalization's effects on money laundering typologies (McCarthy and Berg 2018, 3). Ultimately, it is argued that money laundering maintains the profitability of crime while undermining the legitimate economy and state functionality (McCarthy and Berg 2018, 30). Similarly, Pirogova, Miguel, and Kosihina (2019) examine the impact of illegal financial activities on economic security, emphasizing the role of globalization and technological advancements in facilitating these crimes. Their study further underscores the importance of international cooperation and effective national policies in combating these pervasive issues. This implies a necessity for both the internationalized approach that the FATF framework is providing and maintaining balance with necessary fine tuning depending on local contexts of institutional capacity.

Building on the discussion of the internationalization of illicit activity and the subsequent challenges this poses for AML efforts, McCarthy (2018) proposed a new taxonomy of actors and jurisdictions involved in the money laundering process. The baseline assumption of this taxonomy is that money launderers operate under distinct rationales and that countries are distinctly incentivized to engage in the fight against money laundering and organized crime (33). The author suggests looking at four sub-divisions of money launderers: standard criminals, organized crime, terrorist groups, and, lastly, professional launderers – the latter including the likes of bankers or accountants operating in the licit economy (McCarthy 2018, 36-38). As for countries, it is suggested that the following are the three main types of positionalities within the value chain: crime-producing countries as the origins of illicit funds; developed countries, home to sophisticated financial systems as the destination of funds; and small economies, acting as intermediaries with less incentives to interfere with (illicit) capital flowing through the country (McCarthy 2018, 52). This is a crucial finding for this thesis, as it implicitly refutes the non-targeted approach to AML that the FATF has been taking.

Synthesizing these perspectives, it becomes clear that practical AML efforts require a multifaceted but tailored approach that encompasses robust legislative frameworks, international cooperation, and a nuanced understanding of the various actors involved in money laundering. Specifically, the taxonomy provided by McCarthy is important to consider here, as it provides a theoretical basis for the need to tailor AML policies to the specific risk profiles of actors and, most importantly, the countries appearing in the value chain of ML. This taxonomy – encompassing crime-producing, transit, and destination countries of financial flows – reflects broader global inequalities; this assumption is substantiated by the key words used to distinguish between specific countries, namely developed or underdeveloped economies. As global AML efforts evolve, the lessons learned from historical developments and contemporary challenges will be crucial in shaping more effective and equitable policies, which should be tailored to specific national realities.

2.2. AML in Colombia:

Introducing Colombia's significant role in terms of crime production, this section focuses on the sustainability of illicit economies in the country and the complexities this adds to controlling money laundering, which is exacerbated by persistent violence and organized crime. Despite adopting comprehensive AML policies and establishing a robust Financial Intelligence Unit, the following paragraphs show how the effectiveness of these measures is limited. Ultimately, it is argued that, without addressing these specific challenges, Colombia's AML efforts will continue to fall short, emphasizing that effective AML strategies must be context-sensitive and adaptable to local realities.

2.2.1. Country Risk Profile:

Due to a decades-long conflict between guerrilla and paramilitary groups and the Colombian government, Colombia has gained unfortunate notoriety as a central player within global drug production, manufacturing between half to two-thirds of cocaine globally (UNODC 2023). Being the source of such a large amount of illicit assets, this raises concerns about the implication of the Colombian armed conflict to the broader scene of financial crime, as each dollar profited from drug production, trafficking, and selling will eventually need to be laundered before being put to legitimate use. Colombia's projected yearly cocaine production was 1,738 metric tons in 2023, as estimated by the UNODC – a record number that rose from

1,120 metric tons in 2018 (UNODC 2023). The difference of 600 metric tons is worth $1,2 billion US dollars at local Colombian prices and $20 billion US dollars at international prices (McDermott & Dudley 2023).

Despite a peace deal marking a formal ending to the conflict between the Colombian government and the guerrilla group FARC (*Fuerzas Armadas Revolucionarias de Colombia*) -- founded as a farmer's movement to achieve a more equitable land distribution in Colombia (Wright et al. 2023, 73), violence in rural areas of the Country has risen again in the years following the treaty (OHCHR 2022; IRCR 2022). That is attributed to a multitude of actors that are filling the void left behind by the FARC, ranging from guerrilla groups such as ELN (*Ejército de Liberación Nacional*), FARC dissidents, and paramilitary groups such as the *Autodefensas Gaitanistas de Colombia*, also called *Clan del Golfo* (Ebus 2021). Rather than addressing the roots of political violence in Colombia, the treaty seems to have merely cured a symptomatic outburst of underlying issues.

Singling out another symptom of prevailing structural issues influencing the sustainability of illicit economies, Colombia’s share of informally and often illegally mined gold surpasses that of any other Latin American country (Rodriguez-Novoa 2023, 3). This is of further interest for this research, not only because it is a result of illicit economies being built around gold mining as part of funding strategies but also due to its significance in the life cycle of laundered funds. Organized crime groups in Colombia have managed to transform vast stretches of rural territory into hubs of social, cultural, and economic structures to fund their activities by extracting precious metals (Rettberg and Ortiz-Riomalo 2016, 83). Tying this issue further into the broader topic of this research, Kaplan et al. (1999) found that after 1990, most US money laundering cases involved gold as the primary means of obscuring the origins of the illicit funds. More recently, Colombia was also one of the many countries experiencing a modern-age gold rush triggered by rising gold prices due to the Global Financial Crisis of 2007-09 (Idrobo, Mejía, and Tribin 2014, 109). Lastly, while conducting field research in Chocó (Colombia), scholars have found that, instead of purely being intended to accumulate assets, extracted gold is often misused to transform illicit cash sourced from the sale of illegal drugs into legally useable cash (Tubb 2020, 135).

The gravity of illicit economies in the Colombian context is further portrayed by the interconnectedness between contraband and money laundering (153). Contraband is an essential practice for money laundering, as it facilitates the movement of illicitly obtained money and obscures its origin when successful. The scale of smuggling goods and assets is estimated between $2,5 billion US dollars and $8 billion US dollars annually in Colombia alone (Ospina-Velazquez 2002, 153). The author remarks that – while current measures are mainly concerned with institutional cooperation, modernizing customs procedures, and criminal sanctions – the most effective long-term strategies would have to focus on inherent cultural change, reinforced agreements with Multi-National-Corporations, and improved services for importers of legal goods (Ospina-Velazquez 2002, 156).

While exploring the complexities of ML in the Andean region and the interplay of international standards with local realities, Thoumi and Anzola (2010) discuss region- specific challenges to AML policy adaptation (4). These include large informal economies, low bancarization rates, and weak property rights. Specifically, the social necessity of informal economies is making it hard to implement rigorous monitoring efforts (Thoumi and Anzola 2010, 5/6). An interesting point by the authors is that AML policies, such as the FATF Recommendations, are to be seen as legal transplants from international agreements that are detached from domestic circumstances, as well as unaware of the institutional weakness that is still prevailing in Colombia as of today (Thoumi and Anzola 2010, 3/4).

Making some important observations regarding the regionally specific challenges to AML adaptation, Ostler (2021) wrote a dissertation about the obstacles to the reintegration of communities that were formerly entirely reliant on coca leaf farming. Discussing the widespread disenfranchisement of marginalized groups in Latin America as direct consequences of historical practices like land patronage systems and territorial dispossession, the dissertation concludes that this specific social fabric of displaced populations with no viable alternatives perpetuates a vicious cycle of illicit crop cultivation and sustainability of illegal economies (13-15). Further, due to the inherent absence of the state in rural Colombia and the continuous suppression of rural communities' livelihoods (EJAtlas 2022), the trust in government entities as protectors of land rights and providers of security has continuously eroded over the decades. Consequentially, these vacuums are filled by illicit groups and historically formed informal institutions (Ostler 2021, 13-18 + 181/182). This is manifested in reality, especially considering the continuity of the practices that Ostler refers to. As mentioned above, territorial dispossession of historically disenfranchised communities continues until today, and it shows a substantial coordination effort by Multi-National-Corporations of the agribusiness sector, Colombian authorities, and even the use of force delegated to far-right paramilitary groups (EJAtlas 2022). This continuity underscores the importance of considering structural issues in tackling the sustainability of illicit economies, especially the prevalence of disenfranchised communities and the continued erosion of trust in the state through an ever-continuing process of dispossession and diminishing livelihoods.

The economy surrounding illicit crops in Colombia has been explicitly analyzed concerning evidence of ML in rural areas by Bayona-Rodríguez (2019). Their paper establishes a statistically significant association between coca leaf farming and ML indicators, using the prevalence of Financial Intelligence Reports (FIR) in certain regions where illegal crop production has spiked. The results show that a mere 1 % increase in area cultivated with illegal crops indicates a 3,4 % increase in FIR value and around $340,000 USD in suspicious money flows reported to the Colombian Financial Intelligence Unit (FIU) (Bayona-Rodríguez 2019, 390). This calls for a more tailored approach, focusing AML measures not only on regions that show a high rate of laboratories but also on other sectors of illicit economies of the country. This is particularly interesting in light of the previous analysis of local illicit economies being perpetuated by certain societal and historically grown norms. It underscores the difficulties of transitioning from illegal modes of production once they are established as the only known mode of survival by the disenfranchised (Ostler 2021, 13-18; Thoumi and Anzola 2010, 3/4).

In summary, Colombia's conflict has positioned it as a significant player within global illicit markets, notably in cocaine and informal gold mining, which have severe implications in terms of AML initiatives due to the high volume of dirty money stemming from such activities. Despite the successful bargaining of peace with the FARC, unresolved underlying issues perpetuate violence and illicit activities, especially in rural areas. Furthermore, illicit gold trade in relation to drug trafficking has become a prevalent channel for laundering money, underscoring the multifaceted nature of financial crimes in Colombia. Traditional smuggling practices complement this scenario, and a deeply ingrained and often necessary informal economy exacerbates the country's vulnerability to money laundering. Studies like those of Thoumi and Anzola, as well as Ostler, illuminate the complex interplay between local realities and the adoption of AML policies, highlighting a disconnect that hampers effective implementation. The statistical linkage between coca cultivation and money laundering indicators, as identified by Bayona-Rodríguez, suggests that targeted AML measures are crucial, particularly in areas entrenched in illegal crop production. This literature review underscores the necessity for globally informed and locally adaptable policies to address the unique socio-economic conditions fuelling the illicit economies of Colombia.

2.2.2. Sophisticated Framework, Failed Actions:

Colombia is said to have established such a sophisticated framework for AML and CTF that it serves as a legislative model for other jurisdictions. Having implemented all 40+9 recommendations by the FATF and established a FIU with far-reaching powers following international standards, at face value, Colombia's bureaucracy shows remarkable efforts to fight financial crime within its jurisdiction (Thoumi and Anzola 2011, 2). The "Mutual Evaluation Report of Colombia 2018" by GAFILAT (the regional supervisory body for Anti-Financial-Crime in Latin America) and the IMF's country assessment provide an extensive overview of the strengths and weaknesses of Colombia's AML/CTF framework, underscoring critical areas of both progress and shortfall in the national regime. Referring to the national risk assessments conducted in 2013 and 2016, both reports recognize Colombia's substantial efforts in understanding its ML/TF risk profile. This appraisal of Colombia, however, is merely referring to having addressed "technical compliance deficiencies" (GAFILAT 2023). This underscores the relevance of this research since, as outlined previously, Colombia's efforts need to reach beyond mere technicalities and specific documentation requirements. However, these assessments have been criticized for their limited scope, and a more comprehensive understanding encompassing a broader array of domestic and international risks is necessary for a holistic risk management approach (GAFILAT 2018, 29-30).

Notably, the Financial Superintendence of Colombia demonstrates a relatively advanced understanding and application of the risk-based supervision approach compared to other regulatory bodies. Despite this, there exists a discrepancy in the level of AML/CFT comprehension and implementation among Designated Non-Financial Businesses and Professions (DNFBPs), marking a significant vulnerability within the overall anti-financial-crime regime (GAFILAT 2018, 30-31). The IMF also emphasizes this gap in understanding and enforcing. The reason for this gap is explained as the lack of awareness among DNFBPs and the overall effectiveness of using financial intelligence to combat ML, particularly for crimes beyond drug trafficking (IMF 2018, 4-5). This is particularly important as it impedes the quality of Suspicious Activity Reports by these actors and exposes the Colombian economy to loopholes for organized crime groups to launder funds while remaining undetected.

The enforcement of legal measures also presents a dichotomy. On the one hand, Colombia exhibits a proactive stance in pursuing money laundering cases linked to drug trafficking; on the other hand, there is a notable deficiency in addressing laundering activities stemming from other severe crimes, revealing a need for a more diversified prosecutorial focus (IMF 2018, 6). This is not to say that the drug trafficking cases are sufficiently tackled, but merely points towards the priorities of the prosecuting agencies. The legal and institutional measures, while in place and actively engaging in combating ML/TF, are critiqued for not sufficiently capturing the breadth of risks, especially in non-financial sectors that remain less regulated or entirely outside the AML/CFT regulatory scope, including those operating informally (IMF 2018, 7-8).

Both reports by GAFILAT and the IMF hence advocate for a comprehensive upgrade to Colombia's AML/CTF strategies. Stressing the importance of enhancing the existing legal framework to cover all vulnerable sectors including those not traditionally covered by AML/CTF measures, they call for improved national coordination of policy development and effective implementation of risk-based supervision across all sectors. There is also an urgent call for improving the operational use of financial intelligence and ensuring that all entities, particularly DNFBPs, are adequately equipped and committed to addressing and mitigating ML/TF risks (GAFILAT 2018, 32-34; IMF 2018, 11).

Analyzing the IMF and the GAFILAT country reports, it becomes evident that Colombia has made commendable strides in certain areas of its AML/CTF framework. While both reports underscore the need for an enhanced understanding of ML/TF risks beyond drug-related offenses, the closing of regulatory gaps in non-financial sectors, and bolstering transparency and information sharing (specifically in terms of Ultimate Beneficial Ownership records), Colombia’s policies appear to show a certain level of sophistication.

As for the shortcomings noted above, the GAFILAT follow-up report on Colombia, finalized in 2023, showcases progress in beneficial ownership transparency with critical legislative updates (GAFILAT 2023, 10/17/19). The report also states enhancements in Customer Due Diligence (CDD) across various financial institutions, emphasizing improved measures for high-risk categories including politically exposed persons (GAFILAT 2023, 10-20, 23, 48). Further, it evaluates the enforcement measures undertaken by supervisory bodies to reinforce AML/CTF standards, especially in CDD processes and transaction monitoring (GAFILAT 2023, 10-20, 38). This shows that the Colombian government is dedicated to being compliant with the most recent standards in the fight against money laundering and financial crime in a broader sense.

As has been researched by media organizations and think tanks such as Insight Crime (an organization conducting investigative journalism on organized crime in Latin America), the issue of money laundering, specifically the laundering of assets derived from illegal drug production (and the trafficking thereof), is still inherently prevailing within the country. Insight Crime found that ML makes up around 2% of the country's GDP, with ever-repeating news of money laundering networks being uncovered in large legal sectors such as football clubs and airlines (Yagoub 2017; Gagne 2016). Money laundering, in the general context of organized crime, also poses an inherent threat to Colombia's longstanding formal democracy. Criminal groups are suspected of laundering money through political campaigns, mostly of candidates that have diminishing chances of being elected, to channel their funds, but also to high profile candidates to gain actual political influence (Insight Crime 2011).

Colombia's strides in enhancing its AML and CTF framework are indeed commendable; yet, as the evaluations by GAFILAT and the IMF suggest, significant challenges remain. While Colombia shows advancements in understanding and implementing risk-based approaches, the persistence of money laundering, especially beyond narcotics, indicates a critical need for broader scope and enforcement. The insights from organizations like Insight Crime further highlight the deep-seated issue of money laundering within various sectors, underscoring a pressing need for a more holistic and inclusive approach. Despite legislative efforts and improvements in areas such as beneficial ownership transparency and CDD, the enduring presence of financial crimes, particularly tied to organized crime's influence on democracy, calls for an unwavering commitment to reform. Colombia's journey toward an ironclad

AML/CTF framework is ongoing, necessitating persistent efforts to bridge the gaps identified by local and international assessments.

In conclusion, the literature review clarifies the importance of a tailored, more nuanced, and more rigorously researched approach to AML efforts, especially considering the previous discussion of Colombia's AML efforts and the risk profile prevailing in the country. Circling back to McCarthy's (2018) proposed new taxonomy of money launderers and countries, Colombia is to be identified as a 'crime producing country' and the main actors involved in producing the crime would be 'organized crime' and 'terrorist groups.' This is an essential takeaway, as it suggests that the overly technical approach recommended by the FATF might be a necessary step towards combatting organized crime globally yet simultaneously deviates from the local challenges observed in Colombia. These challenges, as identified in the previous section regarding Colombia's risk profile, are intrinsically linked to historically grown disenfranchisement and the continuation of the historical practices that favor the sustainability of illicit economies. Identifying and addressing those challenges is a crucial first step to achieving a more applicable and, subsequently, more effective AML policy for Colombia.

3. Historical Contextualization:

This section examines how early forms of colonial exploitation established enduring socio-economic disparities by examining the impact of Spanish colonial practices such as the encomienda and hacienda systems. These historical insights are essential for understanding the persistence of illicit economies in the country and, ultimately, how they relate to AML policy implementation impediments in Colombia.

3.1. Contemporary Socio-Economic Divide:

Contemporary Colombia's share of inhabitants living in poverty is substantial. The commodity boom of the 2000s significantly reduced relative poverty, meaning poverty measured against the domestic standard of living, from 46.3 % in 2003 to 27.2 % in 2013 (Sanchez Torres 2020, 6). However, the Covid-19 pandemic induced the resurfacing of persisting issues in a fragile system. Amidst this far-reaching health crisis, poverty has risen again up to 42.5 % in 2020, nearly back to the level of the early 2000s (World Bank 2021). Also, the persistently high level of inequality, with a Gini coefficient of 0.529 in 2019, which starkly contrasts with the regional average of 0.460 and the more equitable OECD average of 0.316, is a striking indicator of the country's persistent structural issues (OECD 2022). These numbers only gain in gravity when considering that Colombia is generally considered to be a middle-income country (US Aid 2024). The disparities are not merely statistical but reflect deep socio-economic divides that manifest vividly across different regions and between urban and rural areas (Duque et al., 2023, 2065).

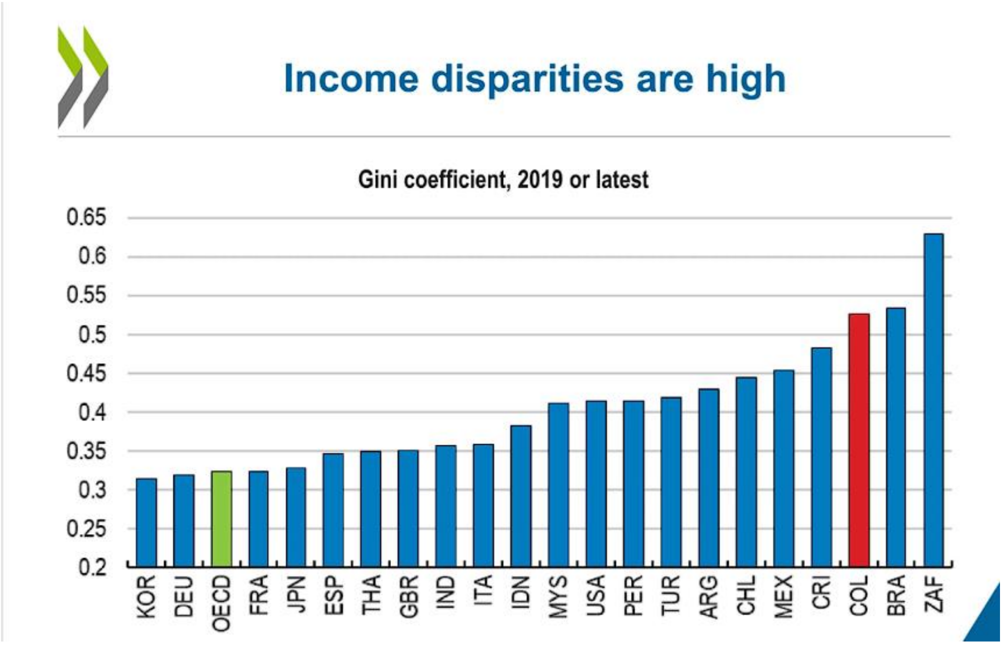

Figure 1, OECD 2022

Access to education, healthcare, and environmental services further illustrates the depth of these inequalities. In 2021, the literacy rate in rural areas was more than three times less than that observed in the country's urban centers. This pattern of disparity also stretches over to the provision of essential utilities, with 41% of the rural population lacking access to clean drinking water, compared to only 2% in urban areas. Sanitation services paint a similar picture of inequality, where 22.2% of rural households lack basic sanitation, significantly higher than the 7.1% in urban areas (Duque et al., 2023, 2065). Concerning health care, about 74% of Colombia's doctors are based in urban centers, which house only 31% of the population. This distribution results in a healthcare access gap where urban areas enjoy up to eight times more physicians per capita than rural areas (Zschock 1977, 71).

Economic factors are deeply intertwined with these social disparities. Despite a robust average annual growth rate of 5.6% in the national income during the 1960s, wealth distribution has remained highly skewed. In 1970, the top 20% of the population controlled about 61% of the total income, vividly highlighting the economic disparities mentioned above (Zschock 1977, 69). Policy attempts to mitigate these disparities, such as the fiscal and administrative decentralization initiated with the 1991 Constitution, have yielded limited success. These measures aimed to reduce regional disparities by increasing the expenditure autonomy of regional governments. However, they have not effectively addressed the underlying structural causes of inequality (Duque et al., 2023, 2066). Between 2001 and 2019, the share of income of the wealthiest 10 % only changed slightly from 58.1 % to 54.5 %, while the share of income of the poorest 50% shows a similar stagnation, going up only marginally from 7.05 % to 8.1 % across the same timeframe (Hasell et al. 2023). Despite at least some evident policy efforts, such a persisting inequality underscores the complex nature of socio-economic disparities in Colombia and the need for a more comprehensive, historically based understanding of how this current socio-economic divide came about.

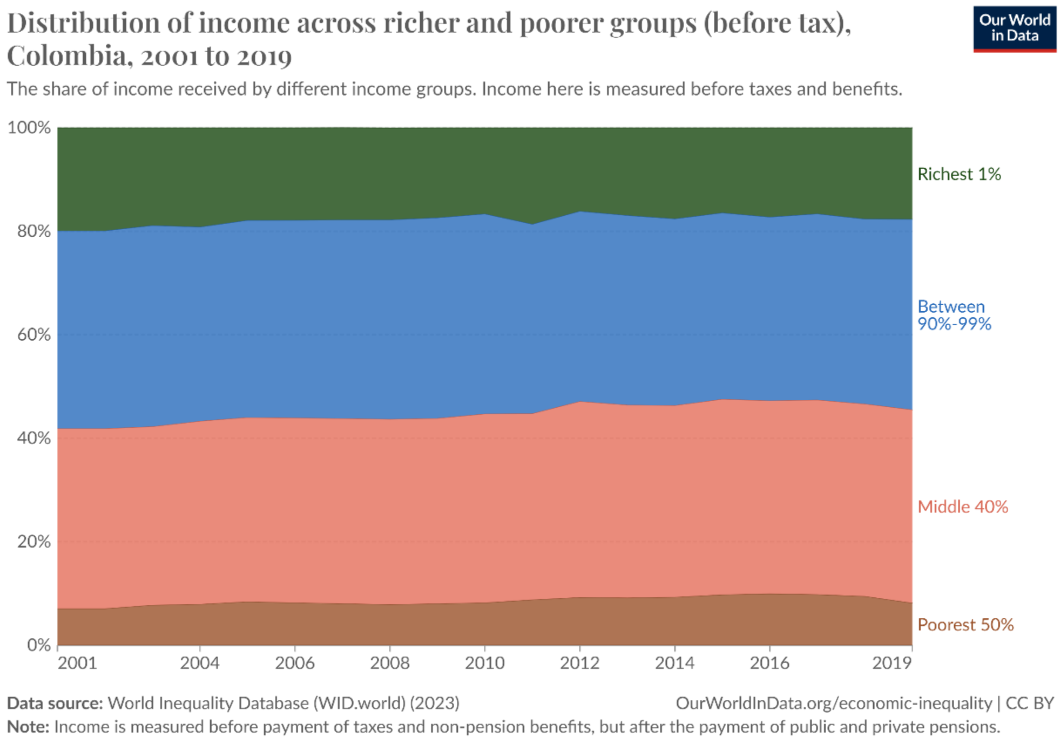

Figure 2, World Inequality Database 2024

Discussing these data points, the regional divides in Colombia are specifically striking, with poverty rates across areas of the country varying widely. The regions of Chocó and Cauca are experiencing high poverty rates of 59.3% and 50.7%, respectively, whereas more prosperous regions like Santander and Cundinamarca exhibited inherently lower rates at 8% and 7.3%, respectively. These numbers, as opposed to the previously used relative poverty in Colombia, measure the percentage of absolute poverty in each Colombian department. This shows the sheer prevalence of people living under the poverty line and the discrepancy between these numbers across regions. This geographical disparity underscores a significant rural-urban divide, where extreme poverty in rural areas is more than three times that in urban settings, and moderate poverty is 50% higher (Duque et al., 2023, 2065).

Circling back to the discussion by Ostler (2021), which examines the link between the disenfranchisement of marginalized communities and their increased likelihood to engage in coca leaf farming, it is crucial to understand the underlying socio-economic and political factors. Ostler's analysis highlights how historical neglect and systemic inequalities contribute to this phenomenon, setting the stage for a deeper exploration of these dynamics within the context of Colombia's coca leaf-producing regions. While the region of Cauca has only become one of the main coca leaf-producing regions in Colombia over the recent decade (Yagoub 2017), the region of Chocó has historically been one of the regions exhibiting some of the highest levels of coca leaf production across the country. Notably, and referring to the topic of regional divide, Chocó also has one of the lowest GDP per capita in the country, with 5.891 million Colombian pesos (COP). This compares to a nationwide mean value of 11.067 COP and shows a significant gap when considering the GDP per capita of 22.209 COP that is observed in the federal district of Bogotá (Peiró-Palomino, Prieto-Bustos, Tortosa-Ausina 2023, Tables 1 + 2). The area has been predominantly controlled by the FARC in recent decades and continues to be largely controlled by armed groups even after the Havana Accords of 2016 (Peters 2017). Chocó serves as a poignant case study, illustrating how long-standing structural disenfranchisement fosters the sustainability of illicit economies. The region's economic marginalization, evidenced by its significantly lower GDP per capita than the national average and Bogotá, creates fertile ground for illegal activities. Historical control by armed groups further entrenches these dynamics. This combination of economic hardship and lack of state presence drives communities towards illicit means of survival, such as coca cultivation and illegal mining. By examining Chocó, we can see how these factors intertwine to perpetuate cycles of poverty and illegality, underscoring the need for comprehensive policy interventions that address economic and social inequalities.

Summing up the socio-economic divide in Colombia, the Caribbean nation is characterized by deep socio-economic and regional disparities that are not easily overcome by incremental policy shifts. The stark contrast in living conditions between rural and urban areas, the concentration of economic benefits among the urban elite, and the insufficient reach of critical public services in rural areas all indicate a need for a more inclusive approach to policy-making. Addressing these disparities requires a downward distribution of resources targeting the underlying causes of inequality and a clear recognition of the root causes of such a persistent divide. Moreover, these findings also shed light on why illicit economies are so successful in rural, poor, and historically ostracized societies. With the lack of the provision of basic services, a lack of state-provided security, and widespread economic hardship, it is clear why people living in areas with these characteristics would succumb to working and living under the patronage of illicit groups.

3.2. Historical Contingencies:

Colombia's persistent socio-economic divides and the sustainability of its illicit economies are deeply rooted in its colonial history. Spanish colonial rule was marked by exploitative practices and systemic violence to maintain control over resources and labor, particularly affecting indigenous and Afro-descendant populations (Hristov, 2014, p. 61). In regions like Chocó, the legacy of these practices is starkly evident. The Encomienda system, introduced in the early 1530s, granted colonial rulers the "right" to extract labor and tributes from indigenous populations under the guise of protection and forced Christian education (Cartwright, 2022). This system, together with the Hacienda system, which distributed dispossessed indigenous land to a few elite shareholders, entrenched socio-economic disparities (Wright et al., 2023, p. 74; Cossin, 2019, p. 1045-1046).

In 1592, the Spanish Crown officially abandoned indigenous slavery, reorganizing indigenous communities into "*resguardos*" on less fertile lands, exacerbating their economic marginalization by preventing them from engaging in self-sufficient farming (Van der Hammen, 2003, 13). However, to sustain the imperial economy, labor demands led to further exploitation of marginalized groups, both through importing African slaves by the mid-17th century but also through coercing inhabitants of indigenous resguardos to work on large-scale plantations to achieve livelihoods instead of self-sufficiency agriculture (Hristov 2014, p. 62). These colonial practices established a landless class with no rights to land or economic self-sufficiency, a legacy that continued into the Republican era and beyond, perpetuating inequality and social exclusion (Hristov 2014, 65).

The relevance of these historical processes in contemporary Colombia is most prevalent in the department of Chocó, where the majority of the population is Afro-descendant or indigenous, with 286,000 individuals from Afro-descendant compared to around 500,000 total inhabitants (Cámara-Leret et al., 2016, p. 162; Colombia Reports 2023). Of these 500,000 individuals, 80% are living below the poverty line and have high rates of infant mortality (MDG Achievement Fund, 2009). The region has become a hub for illicit economies, including illegal gold mining and coca cultivation, driven by historical disenfranchisement and the continued absence of effective state presence (Ebus 2021). The engagement in these activities is not only a means of survival but also a response to systemic marginalization and ongoing land conflicts, often involving aggressive land dispossession initiated by multi-national corporations and armed groups, and as will be shown in the following section, at times also the cooperation of both (EJAtlas, 2022).

The erosion of trust in the state further exacerbates this problem. Historical neglect and exploitation, as explained above, have fostered a deep-seated mistrust among marginalized communities towards state institutions, which are often perceived as protectors of elite interests rather than supporters of the disenfranchised. This mistrust is particularly evident in rural areas like Chocó, where the state's presence is minimal and often associated with violence or neglect. As a result, these communities are more likely to turn to illicit groups that offer protection and economic opportunities, perpetuating the cycle of illegal activities (Rodriguez Goyes & South, 2017, p. 195).

In conclusion, the historical context of colonial exploitation, continued economic marginalization, and eroded trust in the state are crucial to understanding the persistence of illicit economies in Colombia at large, and especially in Chocó. These deeply rooted issues highlight the need for addressing historical injustices and building more inclusive socio-economic policies to effectively combat money laundering and other illegal activities in Colombia.

4. The Continuity of Colonial Practices:

This section examines how colonial legacies continue to impact indigenous and Afro-descendant populations in Colombia, particularly in the Chocó region. It is argued that contemporary land dispossession and exploitation by multinational corporations and armed groups, often with state complicity, mirror colonial tactics and perpetuate socio-economic disparities. These practices, exemplified by two case presentations of continuous dispossession of marginalized communities, undermine economic self-sufficiency, driving marginalized communities into illicit activities for survival. Ultimately, the aim is to show how illicit activity cannot be undermined through the use of force, and needs to be addressed by alleviating historically grown disenfranchisement.

4.1. Dispossessing the Dispossessed:

Colonial legacies impacting livelihoods are still felt today, especially in regions with a large indigenous and Afro-descendant population. The department of Chocó is focussed on in this paper due to its prominent position in the cultivation of illicit crops as well as the control of the region by the FARC and, in recent years, other armed groups. Just a glance at the 'Global Atlas of Environmental Justice,' an online platform that documents and maps environmental conflicts worldwide, shows that neo-colonial practices are still widely common in the region.

Contemporary Land Conflicts in Chocó:

Conflicts over land being dispossessed from the disenfranchised groups living in the region are far from over. These conflicts mostly involve large, multi-national corporations, for example, the prominent *Chiquita Brands International*, a successor of the *United Fruits Company*, which rose to notoriety in Colombia due to their massacre of Colombian workers in Cienaga in 1928. They made headlines again in 2012 when it was revealed that the company financed right-wing paramilitary troops in Chocó with an estimated 19,5 million USD in order for them to suppress an uprising of local communities against the dispossession of their land for an expansion of Banana plantations (EJAtlas 2022).

Injustice and land conflict in Chocó often relate to the expansion of agricultural businesses, and next to the cultivation of bananas, the region is also very favorable for the expansion of palm oil monocultures (Mol 2017, 163). In the basins of the Curvarado and Jiguamiando rivers, Afro-descendant and indigenous communities have experienced a maintained level of violent infiltration, evictions, threats, and extrajudicial killings in recent years, all aimed at removing them from their territories in order to expand palm oil plantations. These practices, initiated and sustained by both national and international private companies, have seriously disrupted the traditional means of self-subsistence practiced by a majority of the affected marginalized groupings (EJAtlas 2022). It is worth mentioning that a significant share of the workers working on palm oil plantations belong to Afro-Colombian communities, with some of these communities having become solely dependent on the cultivation of palm-oil cash crops (Leech 2009).

Lastly, one more case of injustice and land grabbing of indigenous and Afro-descendant land possessions is extraordinarily striking due to political involvements, specifically granting the dispossession of land and not, as in other cases, just turning a blind eye. It is reported that the Canadian logging company *REM Forest Products* has been granted a license for forestry exploitation by striking a deal in 2006 with no less of a political figure than Alvaro Uribe, the Colombian president at the time. The ultimate effects of such a political concession to private corporations have a direct negative impact on the outlook for local communities, which have been legally recognized under the Consejo Comunitario Los Delfines organization. *Consejos Comunitarios* are locally organized authorities administering the collective territories of Afro-descendant communities. They are organizations recognized by national public authorities and international entities (ACNUR 2016, 20/21). However, such formalized recognition does not seem to support their cause since, as of July 2023, around 70% of the total land mass that encompasses the local authority of *Los Delfines* has been under the de-facto control of a Canadian company for the sake of logging in one of the most biodiverse areas of the Globe (EJAtlas 2023; Banerjee et el. 2021, 3). Considering the ignorance towards the livelihoods of the local population at the expense of profitmaking, these cases are reminiscent of the colonial practices illuminated earlier in this work.

A historically grown source of Dirty Money:

Colonial legacies are starkly illuminated in the Chocó region, where Afro-descendant communities, previously dispossessed of their lands, find themselves coerced to work, often under poor conditions, in the very palm oil plantations that have replaced their traditional livelihoods. Considering the junction of either of the presented case studies regarding aggressive business practices by *Chiquita Brands International and REM Forest Products* in Chocó, these are clear instances of continuing the historical practice of dispossessing indigenous 'resguardo' land. By taking away the basis for self-subsistence or for setting up their wealth-generating activities, marginalized communities are actively pushed out of their territories (EJ Atlas 2022). Their disadvantaged position is then misused to coerce them either to work on their lands that they have been dispossessed of previously or to work for armed groups which offer to fulfill the social contract that the Colombian state has failed to provide in the past (Thomson, Parada-Hernández & Acero 2022, 10; Leech 2009). The latter part is especially important to consider, as not only have most people in certain regions of the country rarely ever seen the state, but it goes so far that once they do feel the state's presence, it has usually been concerning the destruction of their livelihoods, as exemplified by the case studies above. As shown in the figure below, the trust in the Colombian government is strikingly low, with only around 38 % of the population trusting the administration (OECD 2022). While there are no specific sentiment polls to be found regarding the trust in the state of inhabitants in Chocó, it is said that the lack of effect of the previously referenced peace deal of 2016 and the continued violence taking place in the department, is further deteriorating trust levels, which have never been high in the first place (Collins 2021).

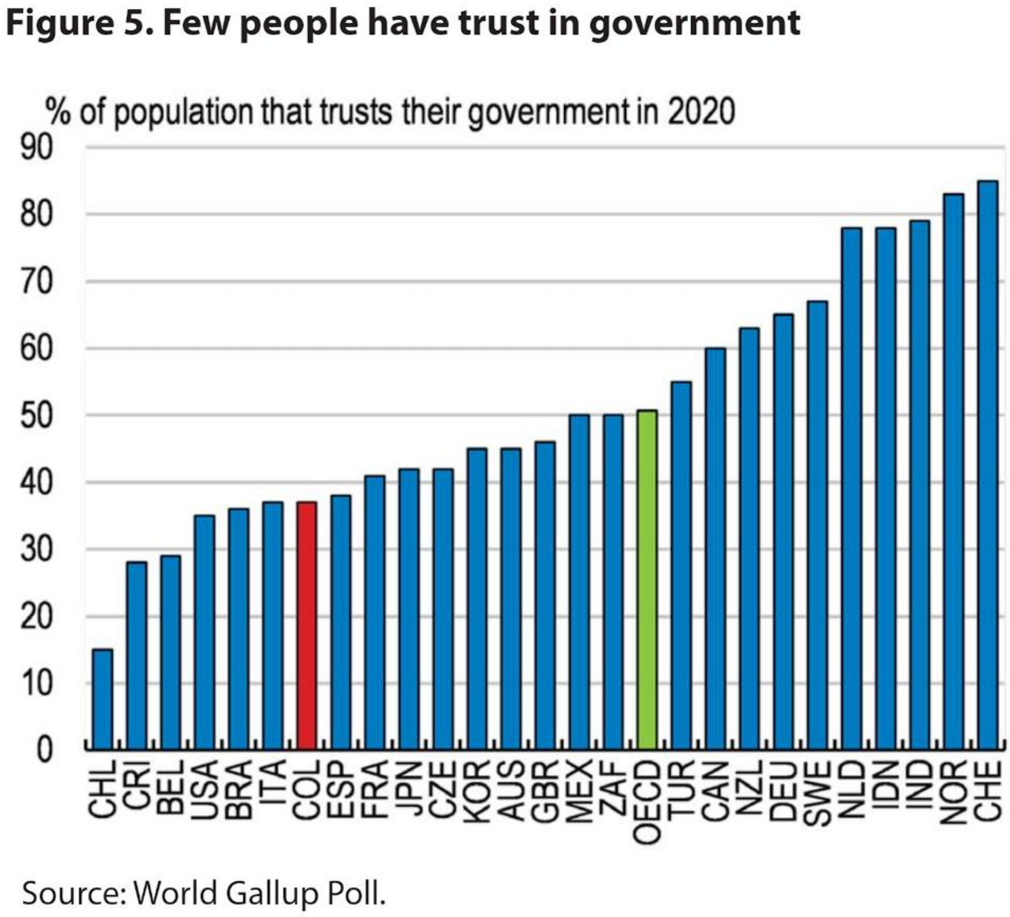

Figure 3, OECD 2022

Seen in this light, the examination of land conflicts in Chocó provides a direct linkage to the sustainability of the drug trade, which is one of the main sources of illicit financial flows worldwide (Brandt 2023, 793). As disenfranchised groups find themselves inextricably tied to the operations of armed militias, which capitalize on the lack of state presence and the desperation of these communities to cultivate illicit crops, organized crime groups are enabled to turn these regions into nerve centers of the global drug trade (Ostler 2022). This cycle of exploitation and criminality is sustained by the economic disenfranchisement of these same communities, making them dependent on a drug trade that, paradoxically, is both a source of survival and oppression.

The involvement of international corporations and concessions by the government itself mirrors historical processes, where state power and legal mechanisms are harnessed to enforce an expansionary agenda of agricultural businesses, stripping communities of their rights and resources. The synergy of historically grown processes and contemporary actions in the context of Chocó provides a comprehensive lens through which the interlocking structures of power and exploitation are maintained in post-colonial societies, reflecting a pattern of marginalization and coerced labor. This provides fertile ground for illicit economies to grow sustainably and maintain themselves based on people who see no other alternative than to trust criminal organizations as administrative and protective entities instead of the state.

4.2. Informality – A Case Study of Illicit Mining

The fight against financial crime is heavily based on the constant and continued assessment of data derived from financial and economic activities, which can take the form not only of transactional data but also registries of beneficial ownership or general organizational structures. This is heavily impeded in economies characterized by a large shadow economy, within which such data is much harder or impossible to track. Informality in Colombia is substantial, with estimates of the share of the informal economy being as high as 60% (Sánchez Torres 2020, 3; Arango & Flórez 2021, 1019). A fitting example of this informality, especially concerning activities of organized crime in the case of Colombia, is the informality prevailing in the country's mining sector, which serves as a case study of the informal economy's impact on Financial Crime Governance in Colombia.

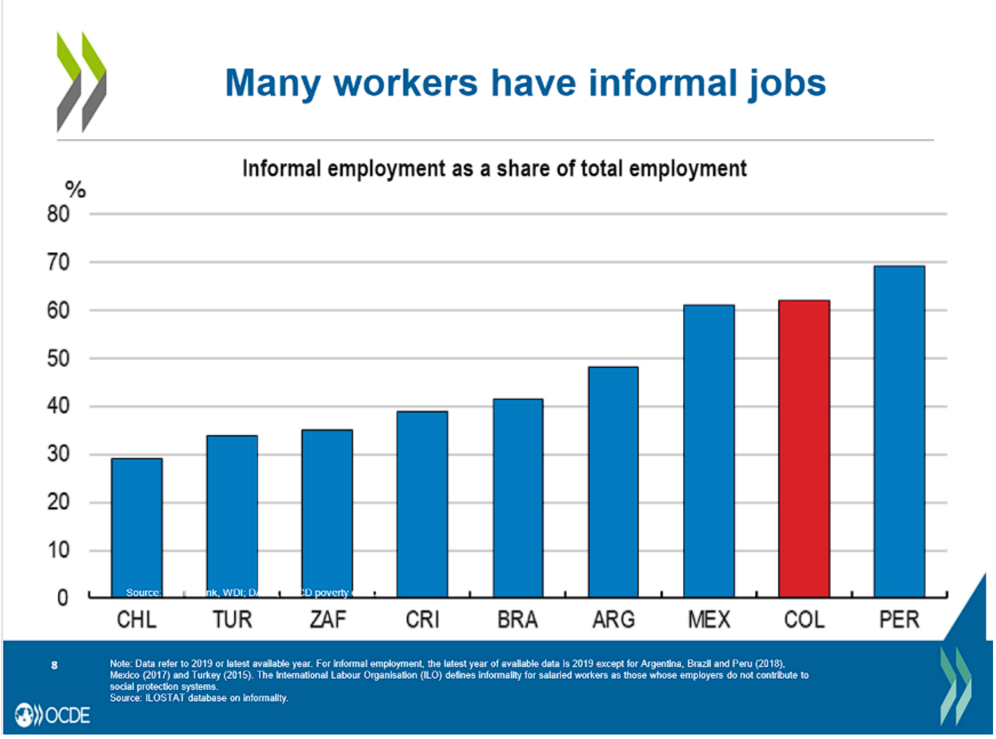

Figure 4, OECD 2022

The informal mining sector in Colombia is notably expansive, with illegal gold revenues surpassing the combined profits from both cocaine and heroin (Fajardo 2017). A significant portion of Colombia's informal precious metal production is attributed to artisanal mining, a sector predominantly run by small-scale and often indigenous-based practices, positioning the country as the foremost producer of informally sourced gold in Latin America. Artisanal gold mining's estimated yield ranges between 41.4 and 50.8 tonnes, closely rivaling the formal, large-scale mining sector's output, around 48 tonnes annually (Rodriguez-Novoa 2023, 3). While the share of artisanal mining of the global output from gold mining was merely estimated at 12 % in 2015, this disproportional share of informal mining production and its susceptibility to being exploited by illicit actors in Colombia is specifically alarming (Rochlin 2021, 1). This scenario raises concerns because armed groups profiting from these activities are the primary beneficiaries of a low formalization in the mining sector. They can freely tap into a labor force of people who, over the past decades, have developed resentment towards the state yet still long for support, organization, and protection. Additionally, it has been observed that poorly defined property rights and complex bureaucratic processes hinder the most vulnerable populations from securing mining licenses, thereby exacerbating illegal mining and associated violence in regions with mineral abundance (Idrobo, Mejía, & Tribin 2014, 109).

One of the primary obstacles to formalization in the Colombian artisanal mining sector is the conflict between the holders of mineral titles and the artisanal miners themselves. Artisanal miners, often local or indigenous inhabitants, typically discover new mineral deposits but face exclusion from official mineral titles, which are generally awarded to those with the resources to extract maximum profits (Veiga & Marshall 2019, 226; Lara Rodriguez 2021, 9). This dynamic surfaces a problematic criterion in Colombia, where the potential productivity of an individual, organization, or community influences decisions about land ownership, perpetuating the deep-seated structural issues of land tenure. Moreover, when queried about the low levels of formalization in mining activities, the director of the responsible government agency stated that their role is not to actively promote formalization but merely to 'supervise private formalization' (Rochlin 2021, 6). This laissez-faire attitude contributes to the continued dispossession of capital-poor communities. It overlooks those for whom capital accumulation is not a primary existential focus, revealing a disconnect and apparent hypocrisy when considering the substantial body of literature that details how legal frameworks have been designed to disenfranchise local inhabitants from their traditional land ownership by kinship (Álvarez 2016, 61; Rochlin 2021, 6; Lara-Rodriguez 2021, 9; Tubb 2020, 91).

Further, illegally mined gold has also become a preferred channel for the laundering of drug-related profits (Rochlin 2021, 1; Kaplan et al. 1999, 2). The FATF themselves, in a report published back in 2015, acknowledged that gold mining, refining, and trading are inherently prone to be misused by criminal groups to legitimize their assets. Due to its constant value and the possibility of being exchanged worldwide anonymously, it is the perfect vessel for detaching dirty assets from their illicit origins (FATF 2015, 24). Moreover, it is worth noting that between 1994 and 1997, Peruvian gold imports into the USA increased more than ninefold, from 19 million USD to 177 million USD, while Gold imported from Colombia inflated from a mere 120,000 USD in 1993 to nearly $200 million only three years later. Observing this trend is important, as between 1989 and 1998, the gold import from Latin America to Miami's main entry port increased 26-fold. Analysts remarked on the unusual pattern that this poses regarding the lack of a large jewelry-making industry in Florida and noted that this unusual pattern of transactions likely reflected a high prevalence of money laundering schemes

(Kaplan et al. 1999, 3). These concerns have manifested vividly over the past years as an investigation into a multi-billion dollar money laundering scheme revolved around *CIJ Gutiérrez*, one of the largest Gold companies in Colombia. The accusations revolve around approximately 2000 SARs filed to the US supervisory body FINCEN, originating from two export companies of *CIJ Gutiérrez* and processed by US banks (McGoey 2021; El Espectador y CONNECTAS 2020). These transactions were made available to the public in 2020 as part of the FINCEN files (ICIJ 2020).

Due to these favorable conditions, militant groups in conflict zones frequently acquire the expertise necessary to mine and market valuable minerals as a revenue stream (Rettberg and Ortiz-Riomalo 2016, 82). Particularly in resource-abundant regions like Colombia, these armed factions have been known to convert entire communities into support networks for their conflict economies, utilizing the extraction of diverse precious metals to bolster their "resource portfolio" and maintain their operations (Rettberg and Ortiz-Riomalo 2016, 83). This instance is most prevalent in areas where efforts against illegal drug production have been notably successful, indicating that addressing illicit activities through state force alone seems to be ineffective and tends to combat merely symptomatic manifestations of underlying structural issues (Rettberg and Ortiz-Riomalo 2016, 93). Communities that have previously depended on cultivating coca or producing the end product itself, due to this being the only available source of income in their situation, also lack clear property rights and hence have been stripped of all means of subsistence altogether. Often, these communities, deprived of formal sector inclusion, resort to informal mining practices on the fringes of legality, frequently under the continued control of illicit groups (Veiga & Marshall 2019, 225; Rochlin 2021, 1).

5. Obstacles to Effective Policy Implementation:

This section examines the challenges to effective AML policies in Colombia, focusing on the persistence of informal economies, the historical disenfranchisement of rural communities, and the inadequacies of international AML frameworks.

5.1. Landless Classes:

To prevent money from being laundered, a crucial first step would be to undermine the activities that generate the illicit funds in the first place. As discussed at an earlier stage of this work, Coca crop cultivation and the subsequent production of Cocaine are some of the most important income sources for organized crime in Colombia. But how does one go about depleting an income stream that has been up and running for decades and which has not ceased to generate profits even amidst long ongoing state violence? An entire US foreign policy strategy, the 'Plan Colombia,' has failed to achieve this. A strategy that entailed an immense use of violence by Colombian state forces against armed groups engaged in coca-crop cultivation and the fumigation of large swaths of land. These coordinated responses to eradicate the income stream through illegal drug production have reportedly failed, as the production of illegal drugs remained on the same level as prior to the US involvement and even experienced an all-time high more recently (Franz 2016, 587; UNODC 2023). This paper aims at providing a more structural approach to undermining such income streams for organized crime, which goes beyond the mere use of violence and fumigation but instead looks at what is sustaining such illicit economies: Historically disenfranchised communities that have been left without means of either self-sufficiency or the creation of their own economic activities.

The fight against money laundering and the illicit drug trade demands a profound structural change, addressing the core socio-economic issues fuelling activities from which dirty money is generated. The cultivation of coca crops and the subsequent cocaine output stemming from Colombia has long been sustained by the socio-economic vulnerability of disenfranchised communities, many of whom are faced with little alternatives but to engage in such illegal economies as a means of survival. By directly addressing the structural disenfranchisement and offering sustainable, legal, agricultural, and economic opportunities, Colombia has the potential to begin the dismantling of the landless labor force that fuels the drug trade.

The disenfranchisement of communities, as, for example, in the department of Chocó and similarly torn regions, is not only a result of current economic practices but is inherently rooted in historical inequities and land dispossession in the past and present. This systemic marginalization pushes communities into a vulnerable position, where involvement in illicit crop cultivation becomes one of the few available means to achieve at least a minimal livelihood. While working on the plantations of some of the agribusinesses that actively pursued their dispossession is another possibility, given that armed groups, such as the FARC and their successors, promise an alternative social contract, and the historically grown distrust toward the state, this poses a more viable alternative for many members of the landless class.

It is essential to provide viable and legal alternatives and introduce a comprehensive development strategy that encompasses land reform, assuring Indigenous and Afro-descendant communities an unchallenged possession of land. Further, investment in infrastructure, education, healthcare, and, most importantly, economic substitution programs, presenting alternative ways of accumulating wealth or self-sufficiency, is essential. These initiatives must be culturally sensitive and, most importantly, community-driven, ensuring that they provide real benefits to the people most affected by the cycles of violence and poverty associated with drug production. Given that until very recently, Colombian presidents have reportedly granted official licenses for environmentally and socially disruptive economic activities, such as logging in the Pacific region of Chocó, there is much work ahead. Due to the historical failure of the Colombian state to monopolize its power, especially in rural areas of the country, this power vacuum was often filled by Guerillas, and state violence was frequently delegated to far-right paramilitaries. In this regard, it is understandable that especially from the angle of the members of disenfranchised ethnic and social groups, the lines between state- and anti-state violence, as well as crime and crime control, have become substantially blurred (Rodriguez Goyes and South 2017, 195).

In achieving a clear distinction between these instances of state and anti-state violence as well as crime and crime control, the Colombian state must make a substantial effort to regain the trust of such communities. Doing so will likely require decades of trust-building initiatives that will work towards integrating ostracised groups into Colombian society. Economic alternatives could include the promotion of sustainable agriculture that does not rely on monocultures like palm oil or bananas, which have historically benefited multinational corporations at the expense of local populations and are to be seen as a continuation of the export-oriented agribusiness companies that were created in the initial phases of the Colombian republic, mentioned previously. Instead, diversifying agriculture with crops of local and international demand but managed by local cooperatives, such as the *Consejo Comunitario Los Delfines*, could provide viable livelihoods and reduce dependence on illicit economies.

Additionally, developing local industries that add value to raw agricultural products could bring more economic benefits to these regions. An ambitious policy plan presented by the current Colombian president, Gustavo Petro, and ratified by Congress in May 2023 is an essential starting point to a more equitable future for disenfranchised groups in rural Colombia. It includes crucial points like land reform redistributing around 3 million hectares of land back to landless farmers and Indigenous communities and a proposed large-scale investment into smaller-scale farming. Based on principles of agroecology, this 4-year plan aims to alleviate deeply rooted socio-economic pressures (Malandra 2023; Departamento Nacional de Planeación 2023).

To protect the land rights of indigenous and Afro-descendant communities against illegal seizures by private interests and corrupt officials, it is imperative to reform applicable legal frameworks and the enforcement thereof. Strengthening the legal recognition of communal land rights and ensuring that communities have autonomy in their land use are crucial steps in preventing land dispossession and increasing resilience. Additionally, there is an inherent need for integrating environmental justice with social justice, and acknowledging, addressing, and preventing environmental damages caused by both legal and illegal exploitation of resources is a critical step in holding perpetrators accountable. This approach not only helps preserve the biodiversity for which regions like Chocó are known but also supports the sustainability of the agricultural practices that communities rely on. It further establishes real opportunities for disenfranchised Indigenous and Afro-descendant communities to escape the vicious cycle of violence, lack of land possessions, and criminal wealth-creating activities that they were coerced to engage in for decades.

5.2. Fostered Informality:

An effective AML policy implementation depends on constantly monitoring, analyzing, and reporting financial flows, records of beneficial ownership, and generally a disclosed set of identifying information visible to certain authorities. Naturally, a large share of informality compared to the overall size of the formal economy makes it almost impossible to monitor a substantial share of economic activity happening in the country. This detachment of the Financial Action Task Force's 40+9 recommendations from reality in much of the economically developing world has previously been criticized for its inapplicability in such territories (Vlcek 2017, 260).

In order to achieve enhanced effectiveness in the implementation of AML policy in Colombia, it is crucial to promote the formalization of the economy. This is particularly important within the gold mining sector, which has been previously identified as one of the central financing mechanisms for armed groups in Colombia and a major vessel for international money laundering schemes. However, promoting the formalization of the economy, in general, requires a substantial rehauling of the approach to informality that is prevailing in Colombia and moving away from the common assumption that it is merely the lack of state presence and monopolized state power in Colombia, which fosters the 'rule of informality' (Rettberg and Ortiz-Riomalo 2016, 85; Lara-Rodriguez 2021, 1). It is detailed that the withdrawal of state actors from rural zones has allowed armed and illicit groups to establish underground economies thriving on illegal extraction activities. This situation is compounded by an exclusive mining formalization approach that failed to enhance state capacity within the small-scale and informal mining sectors (Lara-Rodriguez 2021, 9). Control over these informal mining activities is not always direct. It often manifests indirectly through illicit groups imposing 'taxes' on individuals and companies engaged in informal and artisanal mining, effectively coercing payments in exchange for not disrupting mining operations (Wagner and Hunter 2020, 78-79).

Concluding these perspectives, it becomes clear that the disenfranchisement and exclusion of marginalized communities from the formal mining sector is not simply a result of a lack of state presence or rural underdevelopment, as much of the literature suggests. Rather, it appears to be a deliberate outcome facilitated through a laissez-faire, free-market approach, historical disenfranchisement practices extrapolated from colonial land distribution strategies, and establishing a legal framework for formalization that actively excludes marginalized communities. Hence, an inherent change in the government's attitude towards the formalization of the mining sector is needed to effectively implement AML policies in Colombia and to undermine the mining sector to be used as a source of income for illicit groups.

5.3. One Size Fits Nobody – A Case for Country-Specific Recommendations:

Following the discussion of the historically grown impediments to AML policy implementation in Colombia, it is evident that an enhancement of the blanket approach presented by the FATF 40+9 recommendations is necessary to account for country-specific risk. While these extensive policy papers have marked an essential step towards standardized, globally applicable guidance to fight financial crime, they rarely go beyond the technicalities of financial supervision, strengthened legal requirements, and corporate audit structures. As important as they are, the previous discussion around prevailing informality has shown that they are ineffective in jurisdictions that do not allow implementation. They even support a broader money laundering mechanism in cases such as the gold mining industry. Further, the excursion on the sustainability of illicit economies due to vast disenfranchised populations serves as a reminder that prior to implementing sophisticated mechanisms to monitor illicit transactions, a more structural approach needs to be undertaken in order to undermine sources of illicit financial flows in the first place.

In order to achieve more efficient AML efforts in Colombia, it is worth taking a closer look at where the country stands in the international network of financial crime. Circling back to the taxonomy of 'laundering countries' presented by McCarthy (2018), distinguishing between 'Crime Producing Countries', 'Developed Countries' as destinations for dirty money to be laundered in complex financial systems, and 'Small Economies' as intermediaries in the laundering process, Colombia falls into the category of crime producing countries. Ideally, this warrants country-specific FATF recommendations that are enhanced with measures that first address the sources of illicit financial flows and are tailored to the institutional capacities of said countries. The latter requires a twofold policy approach: Firstly, to find mechanisms of monitoring an economy with a high prevalence of informality and an equally low bancarization rate (Thoumi & Anzola 2010), and to broaden the scope of recommendations to resolve such obstacles.

Addressing the root causes of financial crime, especially in crime-producing countries such as Colombia, and helping to create institutional environments that fit the baseline requirements of effective implementation of the already existing frameworks, international supervisory bodies have a unique chance to take a great leap in their endeavors. It is long overdue that the topic of crime prevention takes a more structural approach, which addresses underlying sources of continued criminal activities, and the case of Colombia has shown that very concisely. Not only does such a rehauling of this standardized AML policy have the potential to bear fruits in the effectiveness of fighting the never-ending fight against crime, but it also would signify an important step in acknowledging those who have historically taken the brunt of these activities. To fight disenfranchisement and coerced informality and to address the historically grown root causes fuelling criminal activities in Colombia must go hand in hand with the fight against financial crime.

6. Conclusion:

In conclusion, this thesis has examined the intricate challenges of anti-money laundering efforts in Colombia within historical, socio-economic, and policy complexities. Reviewing the literature on the topic outlined the global and policy landscape of AML, shedding light on the international standards established by the FATF and critically examining their effectiveness. While these international standards are robust in their technical conditions, their practical application, particularly in formerly colonized countries like Colombia, faces substantial impediments. This is especially true when considering the historical and socio-economic contexts that shape Colombia's unique challenges in combatting money laundering.

The historical contextualization of Colombia's socio-economic landscape revealed the deep-seated impact of colonial legacies on contemporary disparities. Contextualizing Colombia's contemporary socio-economic landscape in the light of its colonial history, the paper showcased how Spanish Imperial rule and its practices have significantly altered social hierarchies in the country. Exploitative practices and land dispossession set the stage for the persistent disenfranchisement of large segments of the population. This historical perspective is critical in understanding the vulnerabilities underpinning Colombia's illicit economies. Colonial practices of land dispossession and the establishment of the Encomienda and Hacienda systems created a landless class, primarily composed of Indigenous and Afro-descendant populations, who were pushed into exploitative labor. This systemic marginalization continued into the republican era and beyond, cementing socioeconomic structures that perpetuate inequality and limit access to economic opportunities.

Despite the implementation of a sophisticated AML framework and Colombia being recognized as a legislative model for other economically developing countries, significant enforcement, and practical application gaps remain. Colombia has adopted all 40+9 FATF recommendations and established a robust Financial Intelligence Unit, which shows the country's commitment to tackling financial crime. However, the effectiveness of these measures is limited by unaddressed structural impediments that represent major obstacles to Colombia's fight against financial crime. These are, namely, prevailing informality and inherent socio-economic vulnerabilities.

The informal economy in Colombia, particularly in the mining sector, presents a significant challenge to AML efforts. Informally mined gold, which generates more revenue than cocaine and heroin combined, is a major conduit for money laundering. The informal sector's vast size and lack of enforceable property rights make monitoring and regulating financial activities difficult, further complicating AML efforts. The case of gold mining underscores the broader issue of informality in Colombia's economy, where a significant portion of economic activity occurs outside the formal sector, impeding the implementation of AML measures that rely on transparency and traceability.

Socio-economic vulnerabilities, exacerbated by historical disenfranchisement, make Colombia's rural populations particularly susceptible to involvement in illicit economies. Regions like Chocó, with extreme poverty and high rates of illicit crop production, have become strongholds for armed groups. The lack of viable economic alternatives and the continued presence of these groups create an environment where illegal activities can thrive. The deep-rooted mistrust in the state, a legacy of historical neglect and exploitation, further complicates efforts to integrate these communities into the formal economy. As trust in the state remains low, marginalized communities often turn to illicit groups for economic opportunities and protection, perpetuating a cycle of illegal activity and sources of financial crime.

These analysis points showed that a one-size-fits-all approach, such as the blanket approach of global FATF recommendations, is insufficient for addressing AML challenges in certain jurisdictions. Instead, AML efforts must be tailored to the country's historical, socio-economic, and institutional contexts. Addressing the root causes of the sustainability of illicit economies requires comprehensive land reforms to rectify historical dispossession, investments in infrastructure, education, and healthcare, as well as the development of sustainable economic alternatives for marginalized communities currently dependent on illicit activities. These efforts should create viable and legal economic opportunities to move communities away from dependence on illicit activities.

Enhancing the formalization of the economy, particularly in sectors like mining, is crucial. Simplifying the bureaucracy for legal mining operations, enforcing property rights, and implementing effective KYC requirements are essential steps. Formalization efforts must be community-driven and culturally sensitive, ensuring they provide real benefits to local populations. This involves regulatory reforms and practical support to help small-scale miners transition into the formal economy, thereby reducing their vulnerability to exploitation by criminal groups.

Rebuilding trust in the state is fundamental to the success of AML policies in Colombia. This requires long-term initiatives that integrate disenfranchised communities into the formal economy and provide them with viable economic opportunities. The state must demonstrate a commitment to protecting land rights, ensuring environmental justice, and preventing illegal seizures by private interests and corrupt officials. This involves reforming legal frameworks to strengthen the recognition of communal land rights and ensuring that communities have autonomy over how their lands are used. Additionally, integrating environmental justice with social justice is crucial for holding perpetrators accountable and supporting the sustainability of agricultural practices that communities rely on.

Ultimately, effective AML policies in Colombia must be tailored to the country's unique risks and institutional capacities. This involves developing mechanisms to monitor an economy with high informality and low bancarization rates and addressing crime-producing countries' particular challenges. The taxonomy proposed by McCarthy (2018) highlights the need for country-specific FATF recommendations that consider the distinct roles of different countries in the global network of financial crime. For Colombia, this means focusing on the origins of dirty money in illicit financial flows and creating institutional environments that support the effective implementation of existing frameworks.

The fight against money laundering in Colombia is not merely a legal or financial battle but also a socio-economic one that requires a holistic and targeted approach. This includes holistic policy reforms, community-driven development initiatives, and sustained efforts to rebuild trust in the state. By integrating these elements into a well-researched and context-specific AML framework, Colombia can enhance its efforts to combat money laundering and foster a more just and sustainable socio-economic landscape. If adopted as national policy guidance, this approach would not only provide an opportunity to strengthen legal and financial oversight but also to acknowledge and address the historical and socio-economic realities underpinning financial crime, paving the way for more effective and enduring solutions. To specify how this policy benchmark could be manifested in clear-cut, wellassessed action points is beyond the scope of this research but poses a relevant topic for further research on the subject.

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