

Paraguay

International Narcotics Control Strategy Report Volume II

Money Laundering and Financial Crimes

OVERVIEW

Paraguay continues a strong trajectory of economic growth, expected to again surpass 4 percent in 2017 – outpacing neighbors in the region. Transnational criminal organizations use Paraguay for the large-scale cultivation and processing of marijuana and the processing and transit of Andean cocaine. The Tri-Border Area (TBA), comprising the shared border area of Paraguay, Argentina, and Brazil, is home to a multi-billion dollar contraband trade that facilitates significant money laundering in Paraguay. The government of Paraguay has worked to reduce the criminal use of Paraguay’s financial system to launder illicit proceeds by taking steps to address corruption, eliminate bureaucratic inefficiencies, and enhance interagency coordination; however, these efforts have not yet produced substantial results.

VULNERABILITIES AND EXPECTED TYPOLOGIES

Money laundering occurs in both financial institutions and the non-bank financial sector; vulnerabilities include a large number of unregistered exchange houses, a primarily cash-based economy, lax regulation of import-export businesses and casinos, weak border controls, and insufficient oversight of a high volume of money transfers to Lebanon and China. While some launderers leverage inconsistent enforcement to electronically move money, others take advantage of ineffective border controls to physically transport cash across TBA borders.

Trade in Ciudad del Este and other towns along Paraguay’s borders with Brazil and Argentina is characterized by a high degree of informality, and TBML occurs in the region. The area is known for narcotics trafficking, document forging, smuggling, counterfeiting, and violations of intellectual property rights, with the high volume of licit and illicit trade fueling TBML. Smugglers move a broad variety of products either produced in Paraguay or imported into Paraguay, to Brazil and Argentina. Criminal organizations launder proceeds from smuggling and often co-opt government officials through bribery to maintain their ability to continue. Paraguay does not have an offshore sector. Paraguay’s port authority manages free trade ports and warehouses in Argentina, Brazil, Chile, and Uruguay.

KEY AML LAWS AND REGULATIONS

In 2017, Paraguay enacted important legislation outlawing bearer bonds and authorizing the creation of an agency to administer seized and forfeited assets. As of December 2017, Paraguay is drafting implementing regulations and must fund the new agency.

Paraguay has KYC and STR regulations applying to a wide range of entities, and authorities are developing a project to unify and update money laundering prevention regulations. Paraguayan legislation covers legal persons and requires enhanced due diligence for PEPs.

There is no bilateral MLAT between Paraguay and the United States; however, both are party to multilateral conventions providing for cooperation in criminal matters.

Paraguay is a member of GAFILAT, a FATF-style regional body. Its most recent MER can be found at:

http://www.gafilat.org/UserFiles/documentos/es/evaluaciones_mutuas/Paraguay_3era_Ronda_2008.pdf.

AML DEFICIENCIES

Paraguay is not subject to any international sanctions. Paraguay struggles to investigate and prosecute complex money laundering cases, in part because of a disjointed AML regime and lack of interagency cooperation. The Taxation Secretariat (SET) focuses on tax evasion cases, but lacks access to the Anti-Money Laundering Secretariat (SEPRELAD) and banking information. SEPRELAD lacks resources, though it does refer STRs to SET and Customs when appropriate. Prosecutors often treat SEPRELAD analytic reports as evidence, and therefore publicly releasable, rather than protect them as intelligence. Though the Central Bank of Paraguay (BCP) has authority to supervise banks for money laundering compliance (independent of SEPRELAD), the sanctioning regime is not effective. To address these deficiencies, the government's interagency financial crimes working group is seeking to enhance coordination on AML issues among these actors. The Paraguayan government, through long-term engagement with international donors, is also working to improve its AML regime and implement its strategic plan.

ENFORCEMENT/IMPLEMENTATION ISSUES AND COMMENTS

Paraguay continues to take steps to implement the 1988 UN Drug Convention and international AML standards. During the first nine months of 2017, Paraguay convicted four persons (compared to five in all of 2016) and presented three cases for prosecution (equal to all of 2016). Meanwhile, large-scale money laundering cases, including the Forex and Megalavado cases worth a combined estimated U.S. \$1.8 billion, are not advancing in the judicial system, in part due to defense-initiated, though legal, recusals and procedural delays. Criminal cases against eight Forex bank officials are likely to be dismissed in early 2018 after the statute of limitation expires – after six years without preliminary hearings.

Current regulations lack effective implementation. For example, SEPRELAD and the BCP have different interpretations of Paraguayan law regarding when STRs should be submitted. Many STRs are poorly written and do not contain actionable information. Approximately 80 percent of the 8,000 STRs submitted to SEPRELAD during the first nine months of 2017 lacked information of value from a financial intelligence perspective. SEPRELAD conducts outreach to reporting entities to improve STR quality and could enhance its analysis of financial intelligence by gaining access to Customs, SET, and BCP information.