



# The Financial Arm Of The FARC: A Threat Finance Perspective

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## **Author Biography**

Thomas Cook is currently an analyst with Global Defense Technology and Systems and works in the field of Counterterrorism. Mr. Cook received a Bachelor's of Arts in Political Science and Economics from the University of Pennsylvania and a Master's of Science in Intelligence Management from Henley Putnam University. He currently resides in Northern Virginia and can be reached at: [tcook08@gmail.com](mailto:tcook08@gmail.com).

## **Abstract**

The FARC (Fuerzas Armadas Revolucionarias de Colombia or Revolutionary Armed Forces of Colombia) transformed from a traditional guerrilla group into a full-fledged insurgency because of its ability to effectively convert the proceeds derived from illegal narcotic trafficking into operational funds. Those financial capabilities allowed the FARC to challenge government authority in large swathes of the Colombian state. The FARC moved into the drug trade, initially controlling production territory and subsequently engaging in trafficking, which allowed the organization to increase its war-fighting capabilities. This paper only scratches the surface of the mechanism by which the FARC utilized its coca revenue in order to fund its community reinvestment programs, engage in large scale military buildup, and buy political support throughout the region. The exploration of the financial side of the FARC adds to our understanding of how insurgencies become successful. Based on open source information, Threat Finance and financial investigative techniques are underutilized in foreign policy, law enforcement, and intelligence. The critical role played by financing in the rise of the FARC suggests that Threat Finance efforts can be most effective when used to track terrorist and criminal networks. American law enforcement and intelligence agencies should be given bigger budgets and tasked earlier to shut down or disrupt financial networks of foreign insurgencies, such as the FARC.

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## Abstract

The FARC (*Fuerzas Armadas Revolucionarias de Colombia*, or Revolutionary Armed Forces of Colombia) transformed from a traditional guerrilla group into a full-fledged insurgency because of its ability to effectively convert the proceeds derived from illegal narcotics trafficking into operational funds. Those financial capabilities allowed the FARC to challenge governmental authority in large swathes of the Colombian state. The FARC moved into the drug trade, initially controlling production territory and subsequently engaging in trafficking, which allowed the organization to increase its war-fighting capabilities. This paper only scratches the surface of the mechanism by which the FARC utilized its coca revenue in order to fund its community reinvestment programs, engage in large-scale military buildup, and buy political support throughout the region. The exploration of the financial side of the FARC adds to our understanding of how insurgencies become successful. Based on open-source information, Threat Finance and financial investigative techniques are underutilized in foreign policy, law enforcement, and intelligence. The critical role played by financing in the rise of the FARC suggests that Threat Finance efforts can be most effective when used to track terrorist and criminal networks. American law enforcement and intelligence agencies should be given bigger budgets and tasked earlier to shut down or disrupt financial networks of foreign insurgencies, such as the FARC.

## Introduction

The root of the Colombian Government's war with the FARC (*Fuerzas Armadas Revolucionarias de Colombia*, or Revolutionary Armed Forces of Colombia) began with the period of Colombian history known as "*La Violencia*." In the 1930s and 1940s, Colombia was led by the leftist Liberal Party, which pushed land and democratic reforms and therefore caused a backlash from the right-wing, Conservative Party landholders and elites. The Liberal Party, facing internal struggles, was defeated in the 1946 elections. In 1948, leading Liberal presidential candidate Jorge Eliécer Gaitán was assassinated, and subsequently Colombian society spiraled into a civil war that resulted in 200,000 to 300,000 deaths.<sup>1</sup> The violence escalated in the broader context of the Cold War because the leftists received support from Soviet forces, while those on the right were supported by the United States. The FARC rose out of these armed Marxist peasant militias, which were strongly influenced by Communist ideology and activists.

Key FARC leaders emerged out of this ideological struggle, including Commander Pedro Antonio Marín, also known as Manuel Marulanda Velez, or "Tirofijo," and ideological leader and avowed Marxist Jacobo Arenas. In 1953, military strongman General Gustavo Rojas Pinilla consolidated power and decreed amnesty for Liberal guerrillas. In 1955, after consolidating political power, Pinilla reversed his amnesty policy and went after the holdout guerrillas and pushed them into the Andean foothills. The leaders retreated to this isolated rural foothold that would eventually become the birthplace of the FARC movement.

In 1958, the Liberals and Conservatives reached a political agreement known as the National Front, which was a power-sharing agreement between the two major political players. Despite the political agreement and the declaration of a ceasefire, peasant leaders, such as Arenas and Tirofijo, became the targets of an assassination campaign. In 1964, with U.S. encouragement and assistance, the Colombian military engaged in an operation to destroy the independent "Communist" republics in the Colombian countryside. In 1965, the armed peasant leaders held a conference in the department of Tolima and agreed to adopt a mobile guerrilla war strategy. This conference laid the political, ideological, and military roots of the FARC, which was officially founded in 1966 in Southern Tolima.

## The FARC Confronts Coca

The FARC remained a small-scale jungle-based guerrilla movement throughout the 1970s. Alfredo Rangel Suarez, a Colombian military analyst, argues that small-scale guerrilla movements are primarily predatory and rely on financing methods such as episodic extortion, bank robbing, and random kidnappings.<sup>2</sup> At this point, the movement did not pose a significant security threat to state authority. In the late 1970s, the FARC began to engage with the local peasants, primarily by supporting the peasants' farming activities. The FARC survived in the 1970s thanks to support from poor *campesinos* (rural peasants) and external ideological partners, such as Russian and Cuban communist groups.

A number of factors coalesced in the late 1970s and provided the opportunity for coca to become a major Colombian export, and the FARC capitalized on this growth to advance their political and military agenda. Prior to this period, most coca leaf was cultivated in Peru and Bolivia for traditional indigenous uses. In the late 1970s the United States Government cracked down on the major marijuana trafficking routes used by Mexican and Jamaican drug traffickers. This crackdown created an economic opening for Colombian trafficking groups. However, Colombian President Ayala also started to crack down on marijuana cultivation. This crackdown convinced some marijuana traffickers to switch to cocaine trafficking, which was harder for law enforcement officials to detect and also more profitable.<sup>3</sup>

Coca had additional benefits from an agricultural perspective, such as its hardiness, its ability to thrive in poor soil, and the ease with which it was processed into nonperishable paste. For poor Colombian peasants with no land titles and little access to complex irrigation and advanced fertilizers, coca was the most economically lucrative crop. Additionally, growing U.S. demand for cocaine supported high coca prices and a steady demand. FARC leaders from the provinces of Putumayo, Caquetá, and Guaviare realized the early economic benefits from the coca crop and decided to support and tax coca farming as a method of raising funds, despite the groups' ideological differences with drugs and drug trafficking.

### *Seventh Guerrilla Conference and the Adoption of Coca*

The Seventh Guerrilla Conference in 1982 occurred at a critical juncture in the history of the FARC. The decision by FARC leaders at the Seventh Guerrilla Conference to support coca cultivation was a monumental decision that would have long-lasting implications for Colombian history. Initially, the FARC was opposed to coca because of its subversive nature and

its exploitation by free-market traffickers. However, the revenue that was coming from those initial districts convinced the leadership to protect coca farmers and charge them a *gramaje* (farm tax). The FARC's decentralized nature allowed for innovation and risk-taking. The push to adopt coca was led by the FARC leaders in the Colombian province of Caquetá. The Caquetá front of the FARC was an early adopter of coca farming support in direct opposition to FARC rules.

The political, economic, and military realities facing the FARC at the time of the Seventh Guerrilla Conference dictated the decisions made by the FARC leaders. As the FARC leaders convened for the Conference, the FARC had eighteen active fronts and had just recently added a general staff and a secretariat responsible for centralized planning. Structurally, the FARC was beginning to break out of the "defensive" stage of its guerrilla warfare. Economically, the FARC would not have been able to capitalize on these conditions without a means of financing their expansion. The entrance into the drug trade has been widely cited in the literature for its role in the FARC's expansion both geographically and in terms of their capabilities.<sup>4</sup> Coca was a motivator for taking new territory as well as a provider of funding to empower the FARC's military units. The Seventh Guerrilla Conference marked the time when the group's mentality on coca changed, due to the financial needs of its proposed expansion. Structurally, the FARC set up the Financial Commission, which established budgets for each of the FARC fronts. The Commission served as the central clearinghouse for the FARC's revenues.

The group's decision to accept and protect coca farmers allowed the FARC to expand throughout the Colombian countryside. As the FARC moved into new communities, it had to win over the local population. Coca cultivation was migrating from Bolivia and Peru into the jungles of Colombia, led by narco-trafficking groups. These groups were protected by paramilitary organizations which brutally enforced the will of their masters. The FARC was expanding into the same regions and thus entered into a tenuous relationship with the narco-trafficking groups.

## The FARC vs. the Narco-Trafficking Groups: Key Distinctions

In order to understand the Colombian conflict, it is important not to blur the key ideological distinction between the FARC and traditional narco-trafficking groups. Many casual observers lump the FARC into the larger group of narco-traffickers because of their involvement in the drug trade. However, the FARC was founded as a peasant group whose motivation

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was to overthrow the state and implement a "people's government." On the other hand, narco-trafficking groups were free-market capitalists who operated primarily for individual financial enrichment. Politically, narco-trafficking groups, most prominently the Medellin Cartel, preferred to seek out friendly and corruptible government officials. The narco-trafficking groups aspired to having little governmental oversight, enforcement, or pressure. Practically, that translated into paying corrupt politicians, enforcement officials, and other civil servants to turn a blind eye towards drug-trafficking activities.

The similarity between the FARC and the narco-trafficking groups ended with their dependence on coca, coca paste, and cocaine for the majority of their revenue. When the FARC first entered the drug trade, they protected coca growers and taxed the sale of coca to the narco-traffickers. The narco-traffickers would take raw coca leaf or coca paste and process it into cocaine. Then they would export the Colombian cocaine to their buyers in international locations, such as the United States and Europe. Both groups relied heavily on the revenues derived from illegal drug use in the developed world.

Unlike the FARC, the narco-trafficking groups wanted to maximize profit by reducing associated costs; thus they harassed, intimidated, stole from, and generally mistreated peasants in order to get the lowest price for the coca leaf. The poor Colombian peasants were not viewed as a long-term asset by the narco-traffickers but simply as a short-term partner to be abused. Given the narco-trafficking groups' more widespread geographic presence, they were more flexible in where they acquired coca leaves and paste. The lack of a defined territory reduced the incentive for establishing deep local ties.

The FARC's left-leaning political ideology dictated institutional wealth and equality over profit maximization. From the FARC's perspective, the peasants were their greatest strategic asset, and profit maximization was viewed as an evil of the opposition. When the FARC moved into a new community, they first raised coca prices above the level set by narco-traffickers and provided protection from narco-trafficking thugs. Once the FARC had infiltrated a new territory, they adopted state-like functions and provided public services to previously ungoverned populations. Although the FARC guerrillas moved into a new area with military force, they also took responsibility for collecting taxes, settling disputes, providing health and educational services, and improving infrastructure, such as roads and landing strips. The provision of services and outreach to the local community fit with the institutional wealth motto of the FARC. The FARC provided pseudo-state functions, including the "*Reglas*

*de Convivencia*," which regulate such issues as carrying arms, fishing, hunting, working hours, liquor consumption, prostitution, interfamily violence, drug abuse, and cutting trees.<sup>5</sup> One telling example of a FARC community project was the beer tax:

"The revenues are used to support local schools and other projects. Usually an elected committee from the locality decides on disbursement and allocation of the taxes collected. In Remolinos del Caguan, a locality where this beer tax is levied, an elected committee of students and teachers was set up to collect the tax and disburse it for construction of a local school. FARC members enforce the system if the payment is irregular."<sup>6</sup>

It seems counterintuitive to focus on community level programs such as the beer tax allocation in Remolinos del Caguan, but this program is critical in understanding how the FARC grew from a band of rebels with less than 100 members to the largest guerrilla movement in South American history. The FARC used the drug trade to become institutionally wealthy; this institutional wealth was used to further its political objectives. The FARC was able to leverage the support of the local population into territorial control, which led to economic growth, and then military strength.

### *The Fight over Coca-Farming Land*

The two groups started as financial allies, but in the 1980s they competed for control of valuable coca farming land. The tension between the traffickers and the FARC increased as the narco-trafficking groups reinvested their profits by buying agricultural land in Colombia. These purchases displaced *campesinos* and fueled the FARC's call for agrarian reform. The FARC pushed for agrarian reform in order to take land from large landholders, especially prominent drug traffickers, and redistribute it to local farmers. From the FARC perspective, small peasant farmers supplied coca taxes to FARC militants, while large landholders paid paramilitaries to harass FARC-friendly populations and attack FARC positions. Agrarian reform thus provided political capital and achieved military goals.

As the two groups competed over land, the conflict became violent. Despite the FARC's peasant protection strategy, the FARC did mistreat some resistant peasant groups. In fact, there is evidence that the FARC would forcibly recruit or kidnap young boys into the FARC's military ranks.<sup>7</sup> The traffickers responded to FARC advances and kidnapping raids by creating self-defense groups or paramilitary organizations, most prominently the AUC (*Autodefensas Unidas de Colombia*, or United Self-Defense Forces of Colombia).



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As the FARC witnessed the revenue potential of coca trafficking, it moved up the production chain. Initially, FARC operated as a taxer of goods coming into and out of the region, but they were not traffickers. They charged the traffickers to import pre-cursor chemicals, such as acetone and sulfuric acid, and taxed the finished product that left the area. Next they taxed groups on the maintenance of facilities, aircraft, and for the use of FARC landing strips. Over time, they moved into the trafficking business by taking over coca purchasing, providing pseudo-state functions, eliminating trafficking groups, and building refineries.

After the acceptance of coca farming increased their operational strength, the FARC expanded into new regions of the Colombian countryside. The FARC targeted rural countryside that supported coca cultivation in the departments of Guaviare, Caquetá, and Putumayo. By 1990, the FARC had opened up nine fronts in the Department of Meta, now a major coca-producing region. The tenuous relationship between the FARC, the paramilitaries, and the Colombian state erupted into open conflict as the FARC expanded its presence and control over the population. As money flowed into the coffers of the FARC and the narcos, both groups were able to attract, pay, and equip larger numbers of soldiers, albeit oftentimes using harsh tactics. Additionally, Colombia experienced a reverse migration from urban areas into rural areas of coca production—known as the coca rush—because of economic weakness in Colombian cities and the potential for a get-rich quick lifestyle in narcotics. This reverse migration provided a large population of disaffected people who were easily recruited by both the FARC and the paramilitary groups.

From a broader economic angle, the coca industry thrived in Colombia in the 1990s, due to the exposure of Colombian food products to international markets, an increased income inequality in Colombian cities, a crackdown on Peruvian and Bolivian coca crops, and a surge in U.S. demand for South American cocaine. The Colombian agricultural sector accounted for 40% of the national economy in 1945, but by 1984 it accounted for only 22.5%.<sup>8</sup> As Colombia opened its markets to the global economy, many staple crops were no longer profitable, and many farmers turned to coca to supplement their income. As Colombian cities grew and the urban poor became increasingly disenfranchised, the coca industry offered an escape from the dreghs of urban life. In fact, many of the major coca-producing regions were marked by a population influx.<sup>9</sup>

## Methods of Financing during the Growth of the FARC

During the 1970s, when the FARC remained a small-scale guerrilla movement, FARC budgets and financing were easily taken care of with hard currency. The FARC were confined to a limited territory and had weak ties to the people, and thus their economic activities were essentially predatory.<sup>10</sup> As military analyst Alfredo Rangel Suarez states:

"At this stage, the insurgent groups are vulnerable to the state's coercive apparatus, and consequently they concentrate on searching for resources that require minimal exposure and yield benefits only once. The crimes most common in this predatory mode are episodic extortion, bank robberies, and random kidnappings."<sup>11</sup>

Reports from military and intelligence officers indicated that the FARC was stashing large sums of currency in jungle hideaways.<sup>12</sup> With hard currency from these activities, the FARC did not need to launder funds in order to remain operational.

Once coca revenue flooded the FARC's Financial Commission, FARC leaders were able to make strategic investments to drastically improve its organizational strength. For example, FARC forces were sent to the former Soviet Union and Vietnam; a military academy was set up to prepare the guerrillas for a command structure; and investments were made in the FARC's command, control, and communications systems.<sup>13</sup> Once the FARC became entrenched in an area, it was able to generate revenue from activities other than coca production, such as extortion, kidnapping, the expansion of commerce, and taxing non-coca related goods. Coca acted as a gateway to a much wider range of economic activities. The FARC used its growing military and state-making powers to break out of its traditional areas of control. By "colonizing" new areas of the Colombian state, the FARC became a powerful force in Colombia.

The U.S. and Colombian crackdown on the Medellin and Cali cartels created a political and economic vacuum that was partially filled by an expanding FARC.<sup>14</sup> U.S. and Colombian law enforcement officials engaged in the high-profile targeting and capture of major cartels leaders, the most famous being Pablo Escobar. Less publicized but arguably more important was the 1989 takedown of José Rodríguez-Gacha, Escobar's right-hand man and key financier. The Colombian Government, along with international partners, froze over \$80 million in Gacha's assets. The

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case was undoubtedly a success for law enforcement and a major blow for the Medellin Cartel. In 1993, the news of Escobar's death made international news and generated significant praise for American and Colombian counternarcotics efforts. However, the elimination of Escobar had unforeseen consequences on the Colombian drug trafficking environment, such as the fragmentation of trafficking groups. These new groups evolved into smaller, decentralized, tightly-knit networks. As the trafficking groups proliferated but simultaneously shrank in size, the high-profile targeting tactics became ineffective. The new generation of narco-traffickers learned to avoid vertical integration and high-profile behaviors. As new leaders vied for control of the trafficking trade, the FARC seized upon the opportunity to strengthen its control of the production phase.

The FARC gradually moved up the production chain by creating alliances with international trafficking groups and adopting some characteristics of the narco-trafficking groups. Once the FARC had integrated with the local community, they set prices, controlled marketplaces, extorted from foreign companies, and provided public services. As the revenue from a municipality grew, the FARC made infrastructure improvements, such as landing strips, processing facilities, better roads, schools, and health clinics. Electoral support for FARC candidates allowed the FARC to gain hegemony over large areas of previously ungoverned or weakly governed Colombian territory. Once the FARC monopolized state functions in an area, they dictated policies and encroached on businesses formerly run by external groups, especially narco-traffickers. For example, in 1991, a FARC commander boasted about funding his war chest from cocaine laboratories.<sup>15</sup> The FARC taxed narco-trafficking groups on the maintenance of facilities, aircraft, and for the use of FARC landing strips. With these assets, the FARC made connections with international trafficking groups, such as the Arellano-Felix cartel based in Tijuana, Mexico.<sup>16</sup>

The strategic improvements coincided with a period of weak governance by the Colombian state. Even before the surge in drug trafficking in Colombia, the government was stricken by tax and tariff avoidance through asset and income laundering. According to Economist Francisco Thoumi:

"Money laundering itself is a relatively new policy issue, and it was not considered a crime in many countries. Following an old Spanish legal tradition, Colombia had long-standing legislation against 'illicit enrichment,' but it was not 'typified,' and thus it was unenforceable. Only in the mid-1990s did Colombia develop legislation that typified asset laundering as a crime."<sup>17</sup>

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The Colombian Government was simply not aware of or not able to tackle this issue, in part because the country was desperate for hard currency; and attacking these systems would have depleted international reserves during a period of economic fragility.<sup>18</sup>

### *The FARC vs. the Narco-Trafficking Groups: Different Money-Laundering Needs*

It is critical to make the distinction between the money-laundering activities of the FARC and the narco-trafficking groups. For drug traffickers, the process of money laundering is much more complex because the groups must change money from U.S. dollars into Colombian pesos. Colombian cartels, like most influential drug-trafficking organizations, generate a large amount of cash at the end of the production line—places such as the United States and Europe—and the cash must be made available to pay their suppliers. This requires that traffickers must launder small, hard currency bills, typically by placing them in Western financial institutions, commingling the funds with funds generated at cash-intensive businesses, disguising the source of funds, and then transferring the balance to overseas accounts. From an Anti-Money Laundering (AML) perspective, drug traffickers need to hide the source of their illicit income and will generally reinvest the money from the illicit sector into operational budgets and luxury sectors. This occurred in Colombia, most notably in sectors such as real estate, soccer teams, import/export business, hotels and casinos, smuggled imports (in San Andresitos), and construction. Progress has been made as money-laundering experts have identified these sectors and provided guidance for banks to assist in identifying illegal activity.<sup>19</sup>

On the other hand, the FARC was motivated by ideology and a desire to gain political power. In the beginning, the FARC were simply acting as an intermediary between drug traffickers and the peasants; thus they were only interested in payment in pesos. As the FARC moved up the coca production chain, it needed to adopt some of the money-laundering techniques and investment strategies of the drug traffickers. Still, the FARC did not distribute narcotics in the United States; thus they did not need to "place" or "hide" the source of their funds. A major distinction remained: the FARC was primarily interested in Colombian pesos, while the narco-trafficking groups were primarily interested in U.S. dollars and other internationally liquid currencies.

In the 1980s and 1990s the FARC presented a difficult Threat Finance target because they did not operate internationally,<sup>20</sup> but rather used Colombian pesos that had already been laundered. By operating in

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Colombia, the United States was forced to rely on international cooperation and joint agreements to attack FARC financiers. The lack of political will in Colombia, combined with the misguided U.S. drug policies in the 1980s and early 1990s, allowed the FARC to expand their presence. Once the Colombians enlisted American help in the form of Plan Colombia, the law enforcement, intelligence, military, and civilian agencies in both countries began to coordinate and utilize each other's strengths to break the FARC. From a Threat Finance perspective, the first step was to criminalize money laundering and push for similar reforms that allowed intelligence and law enforcement agencies the legal ground to pursue investigations.

Just as the FARC moved into the drug production and trafficking business, the FARC utilized some of the money-laundering techniques of the narco-traffickers. In 1975, the Colombian Government opened the "*ventanilla siniestra*" (left-hand window) as a means of generating foreign exchange. During this period little attention was paid to the concept of money or asset laundering, and the Colombian Government followed conservative economic policy prescriptions, which stipulated that the accumulation of foreign exchange improves economic health. Unfortunately, the *ventanilla siniestra* sacrificed transparency, rule of law, and tax revenue in its attempt to attract U.S. dollars. The *ventanilla siniestra* operated by allowing Colombian financial institutions to accept U.S. dollars from any source without questions. Narco-traffickers were effectively selling U.S. dollars in Colombia for a profit, and then the Central Bank was placing the "drug money" into the U.S. financial system. The FARC were then paid in cleaned Colombian pesos. The *ventanilla siniestra* was closed in 1991 during a period of economic liberalization in Colombia.<sup>21</sup>

The *ventanilla siniestra* was replaced by the Black Market Peso Exchange (BMPE), which by the mid-1990s was the largest known money-laundering operation in the Western Hemisphere.<sup>22</sup> The BMPE operates in six steps:

1. Drug cartels accumulate dollars from street sales of narcotics in the United States.
2. In Colombia, a cartel representative sells the cash (which stays in the United States) to a peso broker at a discount. The broker repays the narcotics representative with clean Colombian pesos. The narco-trafficker is now out of the picture.
3. In the United States, the peso brokers use various methods to "place" the cash into U.S. financial institutions.

4. Back in Colombia, the peso broker locates businessmen who want to import U.S. trade goods: electronics, apparel, foodstuffs, cigarettes, gold, etc.
5. The broker makes a payment from a U.S. account where the narco-funds were deposited, to pay for the trade goods.
6. The BMPE represents a tremendous vulnerability because unlike financial institutions, manufacturers and distributors of trade goods and commodities have no systems in place to detect dirty money.<sup>23</sup>

During the 1990s, the U.S. Treasury estimated that the BMPE laundered \$5 billion dollars worth of drug money per year. It is critical to again reinforce the distinction between the trafficking groups and the FARC. The narco-trafficking groups operated on an international level, while the FARC primarily took advantage of the lax Colombian financial system. Although even if the FARC is not directly responsible for placing dirty money into U.S. financial institutions, the FARC still supplies drug distribution networks with their product. These distributors, now mostly Mexican-based trafficking groups, are responsible for laundering drug funds into the U.S. financial system in order to pay their Colombian suppliers.<sup>24</sup>

In the past ten years, the BMPE has become more complex because placement is occurring in Mexican *casas de cambios* in addition to placement in the United States. Mexican drug-trafficking organizations are engaged in the bulk smuggling of cash from the United States into Mexico to avoid U.S. regulations and to ease payment to Colombian suppliers.<sup>25</sup> As outlined above, Step 3 has changed locations, adding additional challenges to combating illicit finance flows. Mexican peso exchange houses are also involved in international wire transfers that fund BMPE purchases. Finally, this added layer has made it easier for Colombian suppliers to get access to their funds. There are competing hypotheses that explain the addition of Mexican bulk-cash smuggling. The first hypothesis states that U.S. legislation, specifically the USA PATRIOT Act and its provisions on Bank Secrecy, has deterred criminals from abusing the U.S. financial systems.<sup>26</sup> The second hypothesis states that the rise of Mexican drug-trafficking organizations and the ease of bulk-cash smuggling across the U.S.-Mexico border has made it more convenient and secure to place the funds into Mexican financial institutions.<sup>27</sup> It is clear that the FARC remains a key actor in the money-laundering network, despite the fact that they are not directly responsible

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for placing funds into the U.S. financial system. However, the peso brokers in Colombia are the ones who enable the FARC to get paid for coca and coca-related activities.

The FARC's rapid expansion in the 1990s was fueled by their increasing involvement in the narcotics trade and their ability to successfully launder the drug proceeds into operational funds. The FARC was able to support an increase of 5,000 soldiers from 13,200 in 1989 to its peak of 18,000 in the late 1990s. In addition, the FARC military successes forced the newly-elected Pastrana government to cede 40% of Colombian territory to the FARC. President Pastrana withdrew all military and police units from this "*Zona de Distension*" in an effort to establish peace with the FARC. The policy was a failure, and the withdrawal of state forces allowed the FARC to consolidate its power in the aptly nicknamed "*Farclandia*."<sup>28</sup> In July of 1999, according to a Gallup poll, approximately 65% of Colombians believed the Guerrillas were capable of military victory in Colombia.<sup>29</sup> It is from the depths of this conflict that the Colombian state was able to rescue its country. Much literature has been devoted to unpacking the reasons for the Colombian Government's success, but this paper suggests that policymakers should not underestimate the importance of intelligence, law enforcement, and policy reform, particularly in the areas of Threat Finance and Anti-Money Laundering.

## Recommendations

Policymakers seeking to disrupt and defeat trafficking groups and insurgencies should utilize Threat Finance capabilities to identify and eliminate money launderers. Although following the money is currently a priority among policymakers, it should be deployed earlier and with more resources. From a targeting perspective, the peso brokers in Colombia offer a rare link between trafficking groups and Colombian guerrillas. In addition to the rare access they have, peso brokers are motivated essentially by greed. They are engaging in illegal activity and earning a hefty profit by enabling drug traffickers, drug producers, tax evaders, contraband smugglers, and various other criminal organizations. This motivation makes them an easy target for recruitment. The centralized Financial Commission is a key node in the FARC's operational structure. While the FARC is generally a decentralized organization with multiple independent fronts, the Financial Commission offers intelligence officers a high-value target in the fight against the FARC.

From a law enforcement perspective, more needs to be done to strengthen international AML policies. Asset forfeitures, economic sanctions, and public shaming all require lengthy judicial or legislative processes, thus blunting their power. Besides good intelligence, cash seizures are one of the few sharp tools in money-laundering cases. However, they require exhaustive investigations, as well as an element of good fortune. Yet cash seizures cannot bring down criminal enterprises in isolation. In order to fight against narcotics-funded insurgencies, the U.S. needs to fuse law enforcement agencies with intelligence capabilities and push for stronger AML policies, both in the target country and on the international stage. Progress has certainly been made in this area by agencies such as the DEA, Treasury, and U.S. military;<sup>30</sup> however, this is an area where the United States should devote more resources, both domestically and through liaison relationships.

Permanent network disruption is a viable goal; however, money and financing is extremely fluid and transferrable. It is unlikely that AML tools and sanctions can be a long-term or strategic-level tool. In other words, tools to "follow the money" are not a panacea for international conflict. Rather, Threat Finance should be focused primarily on information gathering and used in critical tactical situations. There is always a trade-off between excessive regulations, which stifle growth, and lax oversight, which misses criminal behavior and creates negative externalities.

Ratification of the U.S.-Colombia Free Trade Agreement would also be an important step in reducing tariffs, increasing transparency, and increasing trade. This would in turn harm the corrupt import/export businesses in Colombia by removing the arbitrage opportunities, while promoting sustainable economic growth. The BMPE originated because Colombia had a history of smuggling goods to avoid high tariffs. In addition to stifling free trade, controlled prices create a demand for black-market goods. Promoting growth provides two main benefits to the fight against narco-terrorist groups, as well as the FARC. First, the implementation of the U.S.-Colombia FTA would reduce the black-market demand for dollars by removing high tariffs. Without a huge black-market demand for dollars, many Colombian money exchange houses would go out of business, and the remaining business would be subject to stricter oversight. Secondly, economic growth would provide an alternative for poor farmers who currently grow coca. The rural poverty issue in Colombia can be viewed as a fault of the state, or it can be viewed as a consequence of the culture of violence and drugs that has attracted migrant workers into the rural countryside. This land is simply not suited to sustain a large human population. As Richani states, "Coca and other illicit plantations generated a reverse migration process; the unemployed migrated from cities to areas



of colonization."<sup>31</sup> Instead of focusing on agricultural assistance programs, the Colombian state should focus on urban economic growth, which could sustainably attract and support an influx of the rural poor.

## Conclusion

The FARC could not have assembled its fighting force, bought its weapons, bought public officials at all levels, or controlled vast swathes of Colombian territory without the ability to launder money. Early FARC leaders were confined to a small-scale parasitic existence funded by single-event financing activities such as bank robberies, kidnappings, and small raids. During the Seventh Guerrilla Conference, the FARC officially adopted coca farming as a legitimate means to earn a living. The FARC offered protection and better conditions to poor coca peasants in return for a small tax on the coca trade. As the coca racket expanded into new territories, the FARC's financial revenue exploded. The FARC was able to successfully adopt effective money-laundering techniques which supported its massive operational, political, and geographic growth. In the 1990s the FARC reached its zenith when it was granted 40% of Colombian territory in a failed peace deal. An aggressive counternarcotics and counterinsurgency strategy, named Plan Colombia, was instituted by the Colombian Government with help from the United States. The scope of Plan Colombia is beyond this paper, but some of the financial crimes prosecuted during this period can attest to its success.

In order to better understand the mechanism of FARC financing, additional research needs to be undertaken. Information could be gained from interviews with FARC leaders and financiers, from money-launderers in Colombia, and from law enforcement and intelligence officers who worked this topic in the 1980s and 1990s. Specifically, it would be interesting to discover when the FARC first embraced the black-market exchange system. One would expect a strong positive correlation between the amount of FARC drug money that moved through the BMPE and the military strength of the FARC, measured both in terms of number of fighters and percentage of Colombian territory controlled. Colombia has made great strides in creating, strengthening, and enforcing its financial transparency legislation and institutions. The flip side of that improvement is that during the FARC's ascent, the Colombian financial world was rife with corruption, tax-evasion, smuggling, and money-laundering. This financial black market enabled the growth of the FARC.

The policy implication from this period in Colombian history is that without financial oversight, transparency, and enforcement, criminal and guerrilla groups were able to thrive. Financial monitoring is another tool in the government's arsenal for countering illicit organizations. Threat Finance capabilities need to be strengthened and deployed into trouble areas before violence erupts, not afterwards. Political reform and transparency are generally judged to be secondary priorities in conflict areas. However, that view is challenged by the facts in this case because of the role black markets played in financing the growth of the FARC's insurgent forces. When confronting similar enemies such as the opium-financed Taliban, U.S. policymakers would be wise to push for financial transparency and empower intelligence agencies early on to collect on black-market financiers.

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- 12 Author interview with Peter DeShazo, Director of the Americas Program at the Center for Strategic and International Studies, February 2, 2010.
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- 14 A *drug cartel* is defined as a criminal organization with the primary purpose of promoting and controlling drug-trafficking operations. In an economic sense, a cartel is a combination of independent commercial or industrial enterprises designed to limit competition or fix prices. For the purposes of this article, the Medellin and Cali cartels are used as examples of narco-trafficking groups. Obviously, narco-trafficking groups are not uniform; but given some of their shared characteristics, they are given the same title to increase clarity. For a more in-depth discussion of cartels see Thoumi, 94–95.
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