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Money Laundering and Related Issues in Uzbekistan

1. Overview: drugs and regional security

The Government of Uzbekistan and independent analysts have argued that the most significant threats that Uzbekistan currently faces are related to complex linkages between terrorism, trafficking in drugs and firearms and persons, and corruption, in particular where the proceeds of transnational organized crime are used to fund terrorism. The United Nations 2001 Common Country Assessment of Uzbekistan described the threats as “extremely dangerous”.¹

Additionally, in the last six months, Uzbekistan has played a key role in the campaign against terrorism in Afghanistan. By the beginning of 2002, the country was hosting American troops at Khanabad military base, German troops in Termez, and French troops bound for northern Afghanistan.

In the longer term, Uzbekistan also has important domestic security considerations, which include several radical groups located in Uzbekistan that the Government has said pose a threat to regional security. The Islamic Movement of Uzbekistan (IMU), in particular, is believed to finance terrorist activities from drug trafficking, commodity smuggling and contributions from external sources.

The United States has made the IMU one of its anti-terrorist targets.² Moreover, the campaign in Afghanistan, by focusing on the Taliban and Al-Qaeda, is believed to have disabled some of the IMU’s major financial sources. It might also have restricted the IMU’s opportunities to participate in drugs and arms smuggling.

Uzbekistan has anti-money laundering legislation similar to, and in some areas more advanced than, the legislation of the other Central Asian states. In 2000, Uzbekistan set up a fund to direct confiscated assets to law enforcement activities.

The Government has made strenuous efforts to engage in international cooperation on transnational crime and anti-terrorist issues. However, the complexity of the problems it faces and its limited enforcement capacity reduce the potential for removing the threat.

¹ United Nations, *Common Country Assessment of Uzbekistan*, 2001, p.50

² For complete list, see: <http://www.state.gov/s/ct/rls/fs/9014.htm>

2. Drug trafficking³

In 2000, Uzbekistan seized the second largest volume of heroin and opium in Central Asia after Tajikistan. During the last decade, most seizures have been at border entry points with neighbour Tajikistan. Most of the drugs originate in Afghanistan, and are transited through Tajikistan, which has extensive borders with Afghanistan. Chemical precursors originating in Russia and in Ukraine also transit Uzbekistan.

The volume of trafficking crossing Uzbekistan is thought to be growing, owing to its location and relatively good roads. The authorities estimate that the flow of drugs crossing the country has increased dramatically in recent years and that national law enforcement bodies seize about 10-15 per cent of that traffic from Afghanistan. The border with Afghanistan is only 155 km long and has been well-defended since Soviet times. However, most drugs enter Uzbekistan in transit from Tajikistan, so this interdiction estimate might be over-optimistic.

Moreover, the reopening of the Friendship Bridge on the Uzbek-Afghan border linking Hayraton and Termez creates a serious risk of increased direct drug trafficking between Afghanistan and Uzbekistan. Since 1992, Uzbek law enforcement has seized along the Friendship Bridge route some 72 tonnes of acetic anhydride destined for Afghanistan, and more than 15.5 tonnes of various drugs destined for Uzbekistan.

There is a limited number of officers specialized in investigating drug-related cases in Uzbekistan, and a clear policy on training and use of specialized officers has yet to be developed. Drug law enforcement agencies also lack modern equipment.⁴

3. Crime

Uzbekistan has been undertaking a transition to a market economy in recent years, and many of its criminal problems result from this process. Uzbekistan has a large black market in tobacco and other goods, including basic foodstuffs, like wheat, sugar, flour and rice. The Government does not have much capacity to protect intellectual property rights. Piracy, particularly of audio and video tapes, is extensive.

Trafficking in human beings has emerged recently as a problem and as, in the other Central Asian countries, transnational organized crime groups are largely responsible. In addition, Uzbekistan has a thriving trade in smuggled firearms, linked to drug trafficking.

Although the Uzbek population in certain regions is threatened by the danger of violence resulting from political tensions, interpersonal violence appears to be largely under control.

³ For more information, see: ODCCP, Country Profile on Uzbekistan's drug's abuse and trafficking situation.

⁴ United Nations, *Common Country Assessment of Uzbekistan*, 2001, p.51

There have been indications that criminal proceeds are used to finance terrorist activities in Uzbekistan and other Central Asian countries. Funds of up to \$25 million were reported to have been handed over to Uzbek opposition forces both inside and outside the country to finance their activities.⁵ While some transfers were reportedly in cash, others involved banking operations.

Uzbekistan, together with Kazakhstan, is ranked 71 of 91 countries on the Transparency International Corruption Perceptions Index 2001, which suggests a high level of corruption perception. Kyrgyzstan, Tajikistan and Turkmenistan do not appear on the list.

4. The financial sector

Uzbekistan has chosen a gradual and cautious approach in its transition to a market economy. Banks are the only major financial institutions in the country and the Central Bank still controls 60 percent of the sector's assets. There are no foreign bank branches operating in Uzbekistan. Although some maintain offices, they do not operate except as joint-venture partners with Uzbek firms. Most of the banks follow the old Soviet practice of devoting themselves exclusively to one industry or sector, with the majority of their loans going to state-owned enterprises.

High inflation and the freezing of bank deposits during the currency conversion in the early 1990s shook confidence in the financial system. This has resulted in the use of informal settlement methods, such as barter trade. Use of the national currency in the economy is relatively low. In 1999, broad money to GDP ratio was about 15 percent.⁶

The som (the national currency) is not convertible and the gap between the real and nominal exchange rates has been increasing. Low confidence in the local currency results in the wide use of the US dollar as a means of storing value. The black market in currency is active, which facilitates the conversion of sums into convertible currencies, and is an important component of the laundering process. However, in an effort to improve the exchange rate situation, Uzbekistan and the IMF signed a memorandum in January 2002, in which Uzbekistan pledged to sign the IMF's Article VIII on current account convertibility by 1 July 2002.

Foreign exchange controls limit the availability of foreign currency in the economy. Cash proceeds of crime denominated in soms cannot easily be converted into other currencies. Residents and non-residents may bring the equivalent of \$10,000 into the country tax-free. Amounts in excess of this limit are assessed a 1 per cent duty. Non-residents may take out as much currency as they brought in; however, residents are limited to the equivalent of \$1,500. Nevertheless, foreign currency is readily available to criminals, which suggests a thriving black market. In 2000, Customs seized \$200,000 in cash that a foreigner was trying to smuggle from Uzbekistan to South Korea.⁷

⁵ BBC Monitoring Service, 7 February 2000

⁶ EBRD, *Transition Report*, 2000.

⁷ BBC Monitoring Service, 27 January 2001

5. Response to money laundering⁸

5.1 Legal provisions

Uzbekistan's anti-money laundering legislative provisions are generally similar to – and in a few instances are more advanced than – those in most Central Asian countries. As yet, however, no cases have been reported on the application of the anti-money laundering provisions.

With regard to drugs, Article 41 of the Law on Narcotic Drugs and Psychotropic Substances (1999) stipulates that any institution may be closed for performing a financial transaction for the purpose of legalizing (laundering) proceeds derived from illicit traffic in narcotic drugs and psychotropic substances. Although brief, this provision implies a penalty for the legalization activity.

The Law on Banks and Bank Activity (1996), Article 38, stipulates conditions under which banking information can be released to law enforcement, investigative and tax authorities, prosecutor's office and courts. Different conditions for disclosure of banking information apply to different type of clients – individuals and institutions. However, in both cases, a criminal case must be officially initiated. Similar provisions exist in the banking laws of other Central Asian states.

Article 243 of the Criminal Code imposes liability for the legalization of proceeds derived from criminal activity, namely five to 10 years of imprisonment. This article defines more precisely the acts of money laundering than similar provisions in the Criminal Codes of other Central Asian states. It includes transfer, conversion, exchange, as well as concealing of origin, true nature, source, location, disposition, movement and rights with respect to the assets derived from criminal activity as punishable acts. Accordingly, the article corresponds rather better than those of other Central Asian States to the provisions of Article 3, paragraph 1, subparagraph (b) of the 1988 United Nations Convention against Illicit Trafficking in Narcotic Drugs and Psychotropic Substances of 1988, and Article 6, paragraph 1 (a), of the United Nations Convention against Transnational Organized Crime of 2000.

In accordance with the Regulation of the Cabinet of Ministers of 16 February 2000, On Establishment of a Special Fund for a National Information and Analysis Centre for Drug Control (NIACDC), the assets derived from the sale of confiscated proceeds and instruments of drug-related offences are transferred to this Fund to support entities of the National Security Service, the Ministry of Interior, the State Customs Committee and the Border Guard Committee, which are directly involved in combating illicit drug trafficking. According to information provided by the NIACDC, 42,000,000 som (approximately \$35-40,000) has been distributed by this Fund since it was established.

⁸ Based on the contribution of the ODCCP Regional Office for Central Asia, Tashkent, Uzbekistan.

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There is also a specialized Fund within the Ministry of Internal Affairs set up for the purpose of rewarding those officers who directly participated in or contributed to the law enforcement effort leading to the confiscation of property. This Fund has generated 20% of its assets from the sale of property confiscated from persons who have committed offences including the organization of criminal association, bribery and racketeering.

Recent amendments to the criminal and criminal procedural legislation – which aimed, as stated by the Government, to reduce sanctions and “humanize” the treatment of offenders – abolished the confiscation of property as an additional type of punishment. The provisions that provide for confiscation of proceeds and instruments of crime have not been amended.

Uzbekistan is party to the United Nations Convention on Narcotic Drugs of 1961, the United Nations Convention on Psychotropic Substances of 1971, and the United Nations Convention against Illicit Trafficking in Psychotropic Drugs and Narcotic Substances of 1988, and has signed but not yet ratified the United Nations Convention against Transnational Organized Crime of 2000.

5.2 Anti-money laundering institutions

In accordance with the Code on Criminal Procedure, investigation of money laundering offences falls under the jurisdiction of the Ministry of Internal Affairs. The Department of Investigation of Economic Crimes within the Ministry conducts investigation of all types of economic offences.

There is a specialized structure within the National Security Service and the Department on Combating Economic Crimes and Corruption in the Office of the Prosecutor-General, which is also authorized to conduct investigation of, inter alia, money laundering offences.

5.3 International Cooperation

The Government of Uzbekistan has repeatedly emphasized the importance of international cooperation in the fight against drugs and transnational organized crime, and has made efforts to integrate the country in the system of international cooperation.

Uzbekistan has signed more than 20 bilateral and multilateral agreements on cooperation in fighting illicit drug trafficking with its Central Asian neighbours, and also with Azerbaijan, Bulgaria, Czech Republic, Georgia, Germany, Iran, Italy, Pakistan, Russia, Turkey, and Ukraine. The further strengthening of collaboration in the field of drug control has been discussed in a number of meetings with governmental representatives from the United States and the European Union.

At the regional level, Uzbekistan is an active party to the relevant agreements concluded under the CIS, CAEC, ECO and the “Six Plus Two” Group. Since 2001, Uzbekistan has been a member of the Shanghai Cooperation Organization (formerly

the Shanghai Five), which also includes China, Kazakhstan, Kyrgyzstan, Russia and Tajikistan.

Uzbekistan signed the Memorandum of Understanding (MOU) on Sub-regional Drug Control Cooperation together with the Governments of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan, and the United Nations International Drug Control Programme (UNDCP) on 4 May 1996 in Tashkent. The Russian Federation and the Agha Khan Foundation signed on 16 January 1998, and Azerbaijan in 2001.

In April 2000, Uzbekistan initiated and signed – with Kazakhstan, Kyrgyzstan and Tajikistan – the Central Asian Agreement on the Joint Fight against Terrorism, Political and Religious Extremism, Transnational Organized Crime and Other Threats to Stability and Security of the Parties.

Cooperation with the CIS Member States in the field of mutual legal assistance and extradition is carried out within the framework of the Minsk Convention of 1993 on Legal Assistance and Legal Relations in Civil, Family and Criminal Cases and Protocol thereto of 1994. In addition, Uzbekistan has concluded 15 bilateral treaties in the field of mutual legal assistance, extradition and other forms of judicial cooperation with Azerbaijan, China, Georgia, India, Iran, Kazakhstan, Kyrgyzstan, Latvia, Lithuania, Tajikistan, Turkmenistan and Ukraine.

6. Financing of terrorism

6.1 Radical groups

Long before the events of 11 September 2001, Uzbekistan was warning that transnational terrorism in the region represented a serious threat to international security. At the Tenth United Nations Congress on the Prevention of Crime and the Treatment of Offenders (Vienna, Austria 10-17 April 2000), Uzbek officials emphasized that terrorism in the region was often connected with other criminal activities, including the smuggling of firearms and drugs, from which terrorist groups financed their operations.

Uzbekistan is the most active of the Central Asian states in its policies against insurgents, which include the IMU, Uigur separatists, and Tajik, Afghan and Caucasus groups suspected of being involved in drug trafficking. In September 2000, the US State Department added the IMU to its black list of 28 terrorist organizations.⁹

The IMU – whose stated political goal is the creation of a separate republic in Uzbekistan's Fergana valley – is believed to finance its activities by a range of illegal activities, including drug trafficking, and gold and gem smuggling. The movement also receives funding from Islamic groups and individuals in Pakistan, Afghanistan, Turkey, Saudi Arabia and other Islamic states. In 1999, this reportedly amounted to

⁹ *Central Asian News*, Daily news, 16 September 2000.

around \$25 million.¹⁰ The IMU is also believed to have had ties with the Taliban regime and Al-Qaeda. A foreign legion of some 12,000 volunteers from Uzbekistan and Chechnya, mostly well-trained and experienced combatants, reportedly fought with the Taliban in late 2001.

6.2 Responses

Uzbekistan participated in an international conference on terrorism, held in Bishkek, Kyrgyzstan on 13-14 December 2001. The conference, which focused on the special needs of the Central Asian countries, was co-organized by United Nations ODCCP and the Organization for Security and Cooperation in Europe (OSCE). The Declaration of the Bishkek International Conference on Enhancing Security and Stability in Central Asia: Strengthening the Comprehensive Efforts to Counter Terrorism noted the complex links between terrorism, illicit drugs, transnational crime, arms trafficking and money laundering.

Prior to that event, on 19-20 October 2000, Uzbekistan had hosted the International Conference on Enhancing Security and Stability in Central Asia: an Integrated Approach to Counter Drugs, Organized Crime and Terrorism, also jointly organized by ODCCP and the OSCE. Together with the other Central Asian countries, Uzbekistan endorsed the conference Declaration and a document entitled Priorities for Cooperation to Counter Drugs, Organized Crime and Terrorism in Central Asia, which provide a clear framework for cooperation in the region.

Uzbekistan is a party to the United Nations International Convention for the Suppression of the Financing of Terrorism, 1999, having signed it on 13 December 2000 and ratified it on 9 July 2001. An indication of Uzbekistan's commitment to international cooperation on the suppression of the financing of terrorism is that on 11 September 2001, Uzbekistan was one of only four Member States to have ratified the Convention. The Convention finally entered into force on 10 April 2002, and currently has 31 parties (as of 20 April 2002).

10 J. Sinai, "Islamist Terrorism and Narcotrafficking in Uzbekistan", *Defense and Foreign Affairs Strategic Policy* May 2000

GLOBAL PROGRAMME AGAINST MONEY LAUNDERING

The **Global Programme against Money Laundering (GPML)** was established in 1997 in response to the mandate established by the 1988 Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances. The Convention called on Member States to criminalise the offence of money laundering and to establish a comprehensive legal framework to deal with all associated matters. The **Programme's** mandate was further strengthened in 1998 by the UN General Assembly Special Session, which broadens its remit beyond drug offences to all serious crime.

The **Programme** is the focal point in the UN system for issues related to money laundering and proceeds of crime, including technical assistance to Member States in bringing their countermeasures into conformity with global standards.

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