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On the
Transfer of Real Resources to Developing Countries)



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**INTENSIFIED WORK ON ANTI-MONEY LAUNDERING AND
COMBATING FINANCING OF TERRORISM (AML/CTF)**

Attached for the 65th meeting of the Development Committee is a paper prepared by the staff of the International Monetary Fund and the World Bank entitled "Intensified Work on Anti-Money Laundering and Combating Financing of Terrorism (AML/CTF)". This subject will be considered under item II.C of the Provisional Agenda. Ministers may wish to comment on this subject in their prepared statements.

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FINANCING OF TERRORISM (AML/CFT)**

JOINT PROGRESS REPORT ON THE WORK OF THE IMF AND WORLD BANK

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(In consultation with other departments)

Contents	Page
Abbreviations	2
I. Introduction	3
II. Development of AML/CFT Assessment Methodologies and Convergence	5
A. Expanded AML/CFT Methodology Document	5
B. Progress Toward a Single Comprehensive AML/CFT Assessment Methodology and ROSC	6
III. Intensification of AML/CFT Assessments	8
A. AML/CFT in FSAPs and OFC Assessments	8
B. AML/CFT in the Context of Article IV Surveillance	10
IV. Capacity Building in Member Countries: Technical Assistance and Outreach	11
A. AML/CFT Assessments in the Bank's CASs	11
B. Intensified Fund and Bank Technical Assistance for AML/CFT	11
C. Coordination of Technical Assistance for AML/CFT	13
D. Outreach to Developing Countries	14
E. Internal Training Program on AML/CFT	14
V. Progress on other Research and analysis	15
A. Research into Informal Funds Transfer Systems	15
B. Analysis of AML/CFT Legal and Institutional Framework	16
Box 1: Member Actions on AML/CFT called for in IMFC Communiqué	4

ABBREVIATIONS

AML	Anti-Money Laundering
CAS	Country Assistance Strategy
CFATF	Caribbean Financial Action Task Force
CFT	Combating the Financing of Terrorism
ECA	Eastern and Central Asia
FIRST	Financial Sector Reform and Strengthening Initiative
FATF	Financial Action Task Force
FIU	Financial Intelligence Units
FSA	Financial Sector Assessment
FSAP	Financial Sector Assessment Program
FSSA	Financial System Stability Assessment
IDB	Inter-American Development Bank
IFTS	Informal Funds Transfer System
IMF	International Monetary Fund
IMFC	International Monetary and Financial Committee
IAIS	International Association of Insurance Supervisors
IOSCO	International Organization for Securities Commissions
LAC	Latin American and Caribbean Region
NCCT	Non-Cooperative Countries and Territories
OAS	Organization of American States
OFC	Offshore Financial Center
PRSP	Poverty Reduction Strategy Papers
ROSC	Report on Standards and Codes
TA	Technical Assistance
U.N.	United Nations

I. INTRODUCTION

1. The international effort against money laundering and the financing of terrorism has taken on heightened importance in the wake of the events of September 11, 2001. The priority attached to this effort by the international community was reflected in the November 2001 communiqués of the IMFC and the Development Committee.¹ Both communiqués contain recommendations for international actions, particularly actions by the IMF and the World Bank, in AML/CFT. The Fund and the Bank have each developed and are implementing detailed action plans that respond to the IMFC and Development Committee calls for intensified work on AML/CFT.² The action plans call for joint actions in the following areas:

- Expanding Fund/Bank involvement in AML work to include CFT;
- Expanding Fund/Bank AML work to cover legal and institutional framework issues in addition to financial sector supervisory issues;
- Agreeing with the FATF on a converged global AML/CFT standard and associated ROSC process;
- Increasing Fund/Bank technical assistance in response to members requests to strengthen AML/CFT regimes; and
- Conducting a joint Fund/Bank study of informal funds transfer systems.

In addition, under its Action Plan, the Fund is:

- Circulating over time a voluntary questionnaire on AML/CFT in the context of Fund Article IV missions; and
- Accelerating the Fund's OFC assessment program.

Under its Action Plan, the Bank is also:

- Integrating AML/CFT issues in Bank CASs.

2. This paper provides a progress report on implementation of those action plans. It is organized as follows: Section II discusses the progress in developing assessment

¹ See *Communiqué of the International Monetary and Finance Committee of the Board of Governors of the International Monetary Fund, November 17, 2001*; and *Communiqué of the Development Committee of the World Bank and International Monetary Fund, November 18, 2001*.

² For the IMF Action Plan, see SM/01/328, November 5, 2001, "*Intensified Fund Involvement in Anti-Money Laundering Work and Combating the Financing of Terrorism*." For the World Bank Action Plan, see January 22, 2002 "*Proposed Action Plan for Enhancing the Bank's Ability to Respond to Clients in Combating Money Laundering and the Financing of Terrorism (SecM2002-0006)*."

methodologies; Section III reviews progress in intensifying the assessment of members' AML/CFT regimes and offshore financial centers; Section IV discusses the progress in building capacity among members; and Section V updates progress in research on informal funds transfer systems.

3. Beyond endorsing the action plan of the IMF, the November 17, 2001 Communiqué of the IMFC called on Fund members to undertake a number of specific actions. The actions called for are summarized in Box 1. Countries were urged to take these actions as soon as possible, preferably by February 1, 2002. The IMF was asked to report on progress at its Spring 2002 Meeting, with a full report at its Annual Meeting. Fund members have been invited, through their Executive Directors, to provide the Secretary of the IMF with information on steps they are taking to respond to the request of the IMFC. The Secretary's Department is circulating the information so received to all Executive Directors. In addition, the Chair of the IMFC has written to the U.N. Security Council Counter-Terrorism Committee, the FATF, and the Egmont Group requesting that they provide information to the IMFC on their scope of action. Information received by the Fund as a result of this correspondence has been circulated to Fund Executive Directors.³

Box 1: Member Actions on AML/CFT called for in IMFC Communiqué

At its meeting in Ottawa in November 2001, in addition to endorsing the IMF's Action Plan, the IMFC also called on member countries to take several specific actions to prevent the international financial system from being used to finance terrorist acts or to launder the proceeds of illegal activities. Among other things, each member was requested:

- to ratify and implement fully the U.N. instruments to counter terrorism, particularly U.N. security Council Resolution 1373; and
- to freeze, within its jurisdiction, the assets of terrorists and their associates, close their access to the international financial system, and consistent with its laws, make public the list of terrorists whose assets are subject to freezing and the amount of assets frozen, if any, with monthly reports.

In addition, the Committee called for:

- all countries to establish financial intelligence units to receive and process reports of suspicious transactions from the country's financial sector, and to monitor and analyze suspected terrorist funds;
- provisions to ensure the sharing of information and cooperation between national financial intelligence units, building on the work of the Egmont Group; and
- the deployment of technical assistance to ensure that every country can play its part, based on support either bilaterally or through an international trust fund.

³ As of April 10, 2002, 40 Fund members have responded to this invitation; these responses are being circulated to the Board of the IMF. In accordance with Fund Decision No. 144-(52/51), August 14, 1992, 25 members have notified the Fund that they have imposed restrictions on payments as a result of actions taken to freeze terrorist assets. Responses from the Counter-Terrorism Committee, the FATF and the Egmont Group have been sent to the IMFC.

II. DEVELOPMENT OF AML/CFT ASSESSMENT METHODOLOGIES AND CONVERGENCE

4. **Work completed:** *Expanded draft methodology circulated and commented upon by standard setters. Agreement with the FATF on process of convergence on a AML/CFT Assessment Methodology; revised version being circulated including additional material from the FATF.*

5. **Work remaining:** *Agreement among Fund and Bank staff and the FATF on a single comprehensive assessment methodology. Discussion among Fund and Bank staff and the FATF on possible modalities for assessments aiming for a decision on a AML/CFT ROSC by the Fund and Bank Boards by this summer. Agreement with the FATF on a suitable assessment process for a ROSC that is compatible with the uniform, voluntary, and cooperative nature of the exercise. Agreement by the Fund and Bank Boards to add the AML/CFT standard to the list of areas for which ROSCs will be produced.*

A. Expanded AML/CFT Methodology Document

6. **The earlier draft AML Assessment Methodology, circulated in August 2001, focused on AML practices in the prudentially regulated financial sectors.** It drew heavily on the criteria necessary for an effective AML regime that had been developed by the Basel Committee on Banking Supervision (Basel Committee), IOSCO, and the IAIS. The methodology was piloted in four FSAPs⁴ and the lessons learned have contributed to preparation of the revised methodology.

7. **In response to the action plans, staff expanded the draft AML methodology document to include the assessment of the legal and institutional framework and elements related to CFT.** A preliminary redraft of the expanded methodology was sent for information to the Boards of the Fund and the Bank in February 2002.⁵ The expanded draft methodology extended the earlier document in three directions (i) CFT elements were integrated into the assessment methodology along with AML elements; (ii) a separate new section was developed to address the adequacy of the legal and institutional AML/CFT framework; and (iii) a section covering non-prudentially regulated financial service providers was introduced. Consistent with the evolutionary approach advocated by the Fund and the Bank,⁶ development of a methodology for assessing implementation of the legal framework was left as a topic for convergence with the FATF.

⁴ Luxembourg, the Philippines, Sweden and Switzerland.

⁵ SM/02/40, February 8, 2002; SecM2002-0081, February 13, 2002 “*Fund/Bank Methodology for Assessing Legal, Institutional and Supervisory Aspects of Anti-Money Laundering and Combating the Financing of Terrorism.*”

⁶ See PIN No 01/120, November 16, 2001 “*IMF Board Discusses the Fund’s Intensified Involvement in Anti-Money Laundering and Combating the Financing of Terrorism, p.4.*” January 22, 2002 *Proposed Action Plan for Enhancing the Bank’s Ability to Respond to Clients in Combating Money Laundering and the Financing of Terrorism* (SecM2002-0006); p.8.

8. ***Simultaneously with circulating this expanded methodology to the Fund and Bank Boards, this draft was sent for comments to the standard setters (Basel Committee, IOSCO, IAIS, FATF and the Egmont Group). Comments received from standard setters are being reflected in the revised version.*** On March 5, 2002, Fund and Bank staff met with representatives of the standard setting groups in Basel, Switzerland to work on the February 2002 preliminary draft AML/CFT Methodology. The standard setters broadly endorsed the approach taken in the February 2002 draft. Several participants remarked that assessment of AML/CFT regimes should include a review of the adequacy of the implementation of the legal framework. The standard setters also stressed that, to ensure consistency and to reduce the risk of circumvention, the methodology should avoid giving the impression that any sector would be excluded from AML/CFT Assessments. The standard setters also provided numerous technical suggestions that will be reflected in the revised draft.

9. As a result of consultations with standard setters, ***a revised version of the expanded methodology was circulated to the Boards of the Fund and Bank before the Spring Meetings of the IMFC.*** As discussed below, this version also had appended to it materials provided by the FATF Working Group for assessing implementation of the legal framework.

10. In line with the November 12, 2001 decision of the Board of the Fund, and the January 22, 2002 discussion by the Committee of the Whole of the Bank,⁷ the expanded draft AML/CFT Assessment Methodology is being applied in all FSAP and OFC assessments. This policy became effective with transmittal of the draft to the Boards in February 2002.

B. Progress Toward a Single Comprehensive AML/CFT Assessment Methodology and ROSC

11. The November 17, 2001 IMFC communiqué called for enhancing “collaboration with the FATF on developing a global standard covering the FATF recommendations, and working to apply the standard on a uniform cooperative, and voluntary basis.” In response to this call, and to earlier guidance, Fund and Bank staff have intensified their consultations with the FATF. During the FATF Plenary in Hong Kong on January 28-February 1, 2002, staff explained the expanded structure and scope of the assessment methodology that was being developed by the Fund and the Bank and discussed how that methodology could be further elaborated to convergence on a single comprehensive assessment methodology that would encompass all aspects of the FATF 40+8⁸ Recommendations. The Plenary welcomed the Fund/Bank assessment proposals and agreed to incorporate the Fund/Bank AML/CFT

⁷ See PIN No 01/120, p.4. See SecM2002-0006, p.7.

⁸ The FATF’s 40 Recommendations are widely recognized as the key set of AML standards. These recommendations cover law enforcement, financial system regulation and international cooperation. In October 2001, the FATF issued new international standards to combat terrorist financing, in the form of eight Special Recommendations. The “FATF 40+8” is the short hand reference used by the FATF to cover all the Recommendations.

Assessment Methodology as the basic building blocks of a comprehensive assessment methodology.

12. ***A single comprehensive methodology for assessing the FATF 40+8 Recommendations has not yet been agreed to but would be important for a number of reasons.*** First, it could provide the basis for agreement by the Fund and the Bank as to an assessment methodology for a ROSC for the complete FATF 40+8 Recommendations, that would be ***voluntary, uniform and cooperative***. Second, it could provide a single AML/CFT Assessment Methodology combining in a consistent manner the work of the various financial supervisory standard setters with that of the FATF. Third, in view of the number of agencies conducting assessments of AML/CFT elements, the converged methodology would provide the mechanism for arriving at a common approach to the assessments based on the principles of a ROSC.⁹

13. ***A single comprehensive methodology to assess the FATF 40+8 Recommendations would need to include an assessment of implementation of the legal framework. Taking into account the guidance from the Fund and Bank Boards that it would be inappropriate for the Fund and Bank to become involved in law enforcement issues,*** the FATF ROSC Working Group undertook to draft the additional procedures and a first draft was received in mid-March 2002. Staff have worked with the Working Group to incorporate these elements into the AML/CFT Assessment Methodology in order to cover the FATF 40+8 Recommendations comprehensively. While further work remains to be done, there is now substantial convergence at the staff level on the main components of a single comprehensive methodology for assessing the full FATF 40+8 Recommendations.

14. ***Modalities for conducting assessments based on the single comprehensive methodology, and for preparing the complete ROSC, need to be discussed further with the FATF and considered by the Fund and the Bank Boards.*** These modalities need to include consideration of who will conduct assessments, how the assessments will be organized, how the reports will be presented, who will be accountable for the final ROSCs, and setting the roles for each of the agencies. An outline of these considerations has been provided in the revised version of the expanded methodology submitted to the Boards in early April.

15. ***Consultations on the modalities and the single comprehensive methodology are planned during the lead-up to the June FATF Plenary, with the intention of sending proposals as to the modalities, the comprehensive methodology and the elements of a possible ROSC to the Boards of the Fund and the Bank for a decision by the summer.*** The staff plans consultations with the FATF, Fund and Bank Management and Executive Directors. These consultations could include workshops with Executive Directors and the

⁹ A ROSC module is a summary assessment of a member's observance of an internationally recognized standard in one of the areas endorsed by the Fund and Bank Boards. All modules follow a common structure with a description of country practice, an assessment of the extent to which the member meets the standard, and a list of prioritized recommendations for reform.

FATF as well as possible seminars on a FATF ROSC. The relationship between FATF's NCCT process¹⁰ and the ROSC process of the Fund and Bank, which must be uniform, voluntary, and cooperative, would have to be clarified. These consultations will assist staff in preparing draft guidelines for subsequent decisions by the Fund and Bank Boards on whether to add the FATF 40+8 Recommendations to the list of standards for which a ROSC will be produced.

III. INTENSIFICATION OF AML/CFT ASSESSMENTS

16. **Work Completed:** *AML/CFT assessments included in FSAPs and OFC assessments; weaknesses in AML/CFT regimes identified and actions being taken by members. Fund to double the number of OFC assessments. AML/CFT questionnaire to be used in the context of Article IV consultations developed and circulated to 38 members.*

17. **Work Remaining:** *Continue to assist members to identify and address weaknesses in AML/CFT regimes in the context of FSAPs, the accelerated OFC assessments, and in the context of Article IV missions. Fund to complete analysis and deployment of AML/CFT questionnaires in the context of Article IV reviews.*

A. AML/CFT in FSAPs and OFC Assessments

18. **AML/CFT issues are now being addressed in all FSAPs and OFC assessments.** AML vulnerabilities have been examined in FSAPs since the outset of the program as part of the financial supervision assessments. Since October 2001 the draft preliminary (August 2001 version) AML Methodology has been used in FSAP and OFC assessments. The expanded draft methodology (February 2002 version), including CFT and legal framework issues, has been used since February 2002. FSAP and OFC missions have provided the framework for raising issues and making concrete recommendations to national authorities for action to strengthen their AML/CFT regimes. Among the concerns identified in these assessments have been: weak legal and regulatory frameworks for AML/CFT; ineffective implementation of AML/CFT regimes including poor industry awareness; narrow coverage of institutions; limited definition of violations under AML/CFT laws and regulations; and inadequate reporting and evaluation of suspicious activities.

¹⁰ The FATF initiated the NCCT exercise in June 2000 to assess whether non-FATF jurisdictions are cooperating in the fight against money laundering. The NCCT assessments are based on 25 criteria developed from the FATF 40.

19. *Several countries have already taken actions to strengthen their AML/CFT regimes in response to Fund and Bank recommendations and the assessments conducted in FSAPs and the OFC assessment program.* For example: a large offshore financial center conducted a comprehensive review of its AML/CFT policies and implemented a strong action plan to address weaknesses identified by the assessment; a major developing country enacted new AML/CFT legislation; another major developing country established an FIU and is joining the Egmont Group; and another is upgrading its supervisory capacity on AML/CFT. Further actions are being taken by a number of countries with technical assistance from the Fund and the Bank (see below).

20. *The OFC assessment program has been accelerated.* IMF staff has agreed with jurisdictions to schedule double the number of Module 2 or Module 3 OFC assessments¹¹ initiated in 2002 to 20 from the 10 assessments commenced in 2001. Within this larger group priority is being given to (i) jurisdictions that have significant international financial activity; or (ii) jurisdictions that have not been previously assessed. Progress with the OFC assessment program, the lessons learned and the intensified assessment program are discussed in a forthcoming Fund Board Paper.

21. In addition, FSAPs (Module 3) are being planned in four countries with significant international financial centers. To date, in 2002, the Fund has initiated 4 Module 2 assessment missions have been initiated; 13 missions are scheduled; and tentative dates have been agreed with the Fund for the remainder.

22. *Experience to date with the OFC program shows that substantial work remains to be done: by jurisdictions to improve financial supervision, by the Fund and the Bank (for developing countries) to provide TA, and by the standard setters.* The jurisdictions will need to continue to focus on bringing their legal, regulatory and supervisory systems up to international standards, or in some cases consider exiting from certain OFC activities. Strengthening AML regimes, improving supervisory and regulatory systems for insurance, securities and trust companies and cross-sectoral, cross-border information sharing arrangements and cooperation remain priorities. The Fund will need to complete the assessment program. Under the accelerated schedule, all jurisdictions with international financial centers could be assessed by end-2003. TA, from the Fund and the Bank, and other TA providers will be essential to address the weaknesses identified in the assessments.

¹¹ **Module 1** is a self-assessment assisted by a Fund staff member or consultant. **Module 2** is a stand-alone assessment by a team of specialized supervisors of a jurisdiction's supervisory and regulatory practices assessed relative to the standards determined by the Basel Committee, IOSCO, IAIS and the AML/CFT standards in the Fund/Bank draft methodology. **Module 3** is, for non-Fund members, the equivalent of an FSAP, including both the assessment of standards as well as a comprehensive vulnerability assessment. For Fund members with an offshore financial center, a Module 3 is an FSAP conducted by Fund and Bank.

Standard setters should move forward with their work to develop internationally-agreed standards for the oversight of company and trust service providers, as well as their discussions on the treatment of bearer securities.

B. AML/CFT in the Context of Article IV Surveillance

23. ***Consistent with the call in the IMF Action Plan for expanded attention to AML/CFT issues in Article IV consultations, a specific questionnaire has been distributed to an initial group of 38 members.*** The AML/CFT questionnaire covers legal, regulatory, supervisory and institutional aspects of AML/CFT. The first part of the questionnaire concentrates on the overall legal and institutional framework. Responses to these questions can be largely satisfied by countries providing copies of relevant legislation or regulations. The second part of the questionnaire consists of supplemental questions that go into more detail, especially on the financial supervisory side. The questionnaire is accompanied by a glossary providing the common usage meaning of the main terms used.

24. ***The questionnaire has already been circulated in the context of Article IV consultations.*** Responses are voluntary, and to avoid duplication with other initiatives, responses to U.N. and FATF questionnaires may be used to respond to the questionnaire where appropriate. The initial group of 38 countries were selected so as to achieve representative geographical coverage, to complement assessments under FSAPs and the OFC assessment program, and to feed into the schedule of Article IV consultations.¹² Responses from these first countries were requested by mid-March. An analysis of the responses to the pilot questionnaire and a summary report of findings will be prepared for consultation around the time of the Spring Meetings.

25. ***Going forward attention will be paid to expanding the questionnaire to all members.*** It is envisaged that responses to the questionnaire will inform discussions with the authorities on AML/CFT issues, and help set priorities for technical assistance. Those discussions could cover such issues as the authorities' views on the key ingredients in their approach to AML/CFT; recent measures to strengthen their AML/CFT institutions and practices, or plans to effect such strengthening; and the authorities' desire for technical assistance in this area. The discussions would then be reflected in the subsequent staff report.¹³ The biennial review of the implementation of the Fund's surveillance (SM/02/82, Supplement I) notes that coverage of systemic initiatives—like AML/CFT—in the Article IV process, which is the most regular mode of interaction between the Fund and national authorities, is a convenient channel to

¹² The countries were Algeria, Angola, Antigua and Barbuda, Armenia, Australia, Bahrain, Barbados, Belize, Benin, Brazil, Burkina Faso, China, Croatia, Czech Republic, El Salvador, Estonia, Fiji, Guinea-Bissau, Iceland, India, Israel, Italy, Jamaica, Lebanon, Mauritius, Moldova, the Netherlands, Pakistan, Rwanda, Singapore, Sudan, Suriname, Tajikistan, Thailand, Togo, Tunisia, Vanuatu, and FR Yugoslavia.

¹³ The same questionnaire is being used by the Fund and the Bank in preparation for FSAPs, in which cases the responses will be discussed during FSAP missions and reflected primarily in FSSA and FSA documents.

address issues of broad interest to the membership as a whole. This consideration must be balanced against a danger of overloading of the Article IV process.

IV. CAPACITY BUILDING IN MEMBER COUNTRIES: TECHNICAL ASSISTANCE AND OUTREACH

26. **Work Completed:** *Intensified TA delivery in progress. AML/CFT concerns identified through assessments are being integrated into Bank CASs and Fund and Bank TA programs. Contacts established with the FATF, U.N. Agencies and Egmont Group to develop a global TA coordination mechanism. Outreach is being expanded through Global Policy Dialogues. Internal training is underway for Fund and Bank staff to leverage resources.*

27. **Work Remaining:** *Continue identification and delivery of TA requests emerging from assessments. Expand capacity to deliver TA. Initiate approach to coordinating TA with a broader group of international agencies, regional development banks and regional FATF-style bodies. Approach donors for additional resources to support TA. Continue outreach through Global Policy Dialogues, and expand internal training program to reach field staff.*

28. **The Fund and the Bank have taken a number of steps to strengthen countries' capacity to address effectively AML/CFT vulnerabilities revealed through FSAPs, OFC assessments, or other requests.** These measures include (i) incorporating AML/CFT concerns into Bank CASs; (ii) stepping up the provision of TA to member countries; (iii) leading efforts to establish an international mechanism for coordinating delivery of TA; and (iv) increasing outreach to developing countries to raise awareness of AML/CFT issues. The Fund and the Bank have also initiated an **internal training program** on AML/CFT to enhance staff capabilities to carry out these activities.

A. AML/CFT Assessments in the Bank's CASs

29. **The Bank is integrating the results of the FSAP into the broader range of development measures considered in the CAS, which set out the priorities for the Bank's program on a three-year basis in consultation with the government.** Country teams are being briefed on AML/CFT issues identified in FSAP assessments to ensure that these concerns are integrated into the CASs. For example, the recommendations drawn from the Philippines FSAP discussion of AML/CFT are now being incorporated into the Philippines CAS. Particular focus is being placed on countries where weaknesses in the integrity of the AML/CFT regime may pose a significant governance and development risk.

B. Intensified Fund and Bank Technical Assistance for AML/CFT

30. **The Fund and the Bank have intensified their efforts to provide TA for AML/CFT and are coordinating their activities to avoid duplication.** Fund and Bank TA is intended to strengthen AML and CFT through a sequence of measures. Jointly and separately, the Fund and the Bank are providing assistance that focuses on:

- Formulation of AML/CFT laws and regulations that meet international best practices;

- Implementation of laws, regulations, policies and procedures by financial sector supervisors and other government entities charged with responsibility for enforcement of AML/CFT measures;
- Establishment of financial intelligence units that meet Egmont Group standards;
- Increased understanding of AML/CFT issues by government officials; and
- Development of training and awareness programs to address AML/CFT concerns in the public and private sectors.

31. *TA has been provided to countries in response to country requests following FSAPs and OFC assessments* and prompted by increased international attention to AML/CFT issues. The increase in requests for TA reflects the growing awareness and concern by national authorities to avoid abuse of their financial systems and territories by criminals, and their desire not to be “branded” as crime havens by the international community. This has resulted in relatively swift reaction to fortify their defenses, often with the assistance of the Fund and the Bank.

Table 1: Fund/Bank TA on AML/CFT in Six-Month Period
September 2001 thru March 2002

Status	FSAP Follow Up	OFC Follow Up	Other Requests	Total
Completed		1	5	6
Initiated/Agreed	3	3	12	18
Identified	4	1	7	12
Total	7	5	24	36

32. *Since September 2001, the Fund and the Bank have completed, initiated or agreed to provide TA to 24 countries, and TA requests have been received from an additional 12 countries.* Of this total, seven cases reflect correcting weaknesses identified in FSAPs, five reflect problems revealed in OFC assessments. Among the remaining other requests, some include responses to assessments by the FATF. TA requests since September 2001 have addressed the following main areas:

- ***Drafting of AML/CFT laws and regulations.*** The Bank has assisted or received requests to assist 12 member countries with the drafting or implementation of AML/CFT laws and regulations. The Fund is assisting or has received requests for legal technical assistance from 10 members, including 1 regional project involving 5 small offshore centers in the Pacific.

- ***Establishing financial intelligence units.***¹⁴ The Bank has assisted or received requests to assist four member countries establish and strengthen their FIUs. Eight countries are receiving Fund TA to draft legislation for the establishment of FIUs.
- ***Strengthening supervision on AML/CFT.*** Two large developing countries and four small OFCs are receiving Fund TA or joint Fund/Bank TA to restructure their supervisory systems to address AML/CFT issues. One regional supervisory agency has also received assistance in reforming its legislative and institutional framework. The Bank is also providing TA to three countries to strengthen supervision for AML/CFT.

33. ***As the pace of Fund and Bank assessments increases and as international attention on AML/CFT intensifies, a significant rise in requests for TA is expected. An increase in resources for TA will be needed. Fund and Bank will work to identify additional sources of funding as part of the TA coordination initiative for AML/CFT.*** A possible source of some funding may be the FIRST initiative, a multi-donor trust fund to be targeted at promoting robust financial systems in low and middle income countries. FIRST is intended to provide a systematic mechanism for following up on FSAPs and ROSCs through the identification and delivery of technical assistance.¹⁵

C. Coordination of Technical Assistance for AML/CFT

34. ***The Fund and the Bank, in collaboration with the U.N., the FATF and the Egmont Group are developing a mechanism for the coordination of TA for AML/CFT.*** The benefits of this coordination are to avoid duplication of efforts and to enhance the effectiveness of TA by identifying country demands for TA, resources and availability from different providers and potential gaps in the TA programs. This should enable all agencies to target their TA efforts more effectively to the needs of recipient countries and to track the delivery of TA for AML/CFT.

35. ***We are in the process of establishing a network of contacts among participating organizations to facilitate coordination and communication of TA activities,*** to identify providers of TA and potential sources of funding and other resources. We are also exploring

¹⁴ The Bank's action plan of January 2002 includes a description of FUI.

¹⁵ FIRST is a multi-donor trust fund that will be launched at the time of the Spring Meetings. Resources pledged by initial donors (United Kingdom, Canada, Sweden, Switzerland, the World Bank and the IMF) will be approximately \$40 million over three to four years. The overall objective of FIRST is to help strengthen financial systems in low and middle income countries so that they may make a strong and positive contribution to growth and poverty reduction. FIRST will finance technical assistance that will be largely provided by the private sector to help countries prepare for an follow up on FSAPs and ROSCs. International standards for AML/CFT will be one of the standards for which FIRST may be accessed by country authorities, the Fund and the World Bank.

the costs and utility of developing and maintaining a limited database system. This work is being coordinated with the work of the U.N. which has as its mandate the establishment of a database on sources of TA and TA expertise for combating terrorism.

36. ***A meeting has been scheduled toward the end of April to bring in other key TA providers and donors and to identify resource needs.*** The Fund and the Bank have met with representatives of the FATF, the U.N. Global Program Against Money Laundering, the U.N. Counter Terrorism Committee and the Egmont Group. The FATF-style regional bodies, the regional development banks and bilateral providers have been invited to the April meeting. The objectives of the April meeting are to reach agreement on a coordination mechanism and to develop a better understanding of the demand and supply of TA on AML/CFT, including the potential gaps and the need for additional resources to build institutional capacity. It is anticipated that there will be a significant need for additional resources for TA and to build institutional capacity.

D. Outreach to Developing Countries

37. ***The Fund and the Bank have established a Global Dialogue Series, through video conferencing, to bring together leading experts and high level country officials responsible for formulating public policy on AML/CFT.*** This outreach initiative is raising the level of awareness among senior government officials of the risks to financial market integrity posed by money laundering and the financing of terrorism and increasing understanding of the most effective tools for addressing AML/CFT concerns. The Dialogues provide an opportunity for a constructive exchange among Fund/Bank staff, leading regional experts and senior government officials, as well as an opportunity to identify areas for technical assistance.

38. The first Dialogue was held on January 24, 2002, for the Bank's ECA and included government officials from Kazakhstan, Latvia, Romania, Russia, and Ukraine as well as a representative of the Council of Europe's regional FATF-style body. The second Dialogue—for the LAC—is scheduled for April 3, 2002, and will include officials from Brazil, Colombia, Guatemala, Jamaica and Mexico, together with representatives of the South American and Caribbean FATF-style bodies, the OAS and the IDB. We are planning Dialogues for all regions by June 30, 2002.

E. Internal Training Program on AML/CFT

39. ***To enhance Fund and Bank ability to deliver TA, the Fund and the Bank have launched a program (AML/CFT briefing sessions) to provide a basic level of information to appropriate Fund/Bank staff on AML/CFT issues. By increasing staff awareness of AML/CFT concerns and availability of TA, these briefings will leverage staff resources.*** The AML/CFT briefing presentations cover: AML/CFT as development priorities; IMF/World Bank action plans and role; money laundering and terrorism finance techniques/processes; sequencing of country actions; and coordination with other organizations, initiatives and resources.

40. As of end-March 2002, four AML/CFT briefings will have been provided to Fund and Bank staff. Reaching all target audiences will occur over several months, with several

briefings organized to include Fund and Bank resident representatives and mission staff. This phase of AML/CFT briefings is expected to be completed by June 2002. Further training will be as necessary to develop internal capacity.

V. PROGRESS ON OTHER RESEARCH AND ANALYSIS

41. **Work Completed:** *A joint Fund/Bank fact finding mission conducted in six countries to study Hawala system. Fund analysis of the AML/CFT legal and institutional frameworks of a broad cross-section of countries with individual and comparative tables.*

42. **Work Remaining:** *Complete final joint Fund/Bank report on informal funds transfer systems before the Annual Meetings. Integrate conclusions into Fund/Bank AML/CFT work. Complete a Fund analytical report on issues and trends in AML/CFT legal and institutional frameworks before the Annual Meetings.*

A. Research into Informal Funds Transfer Systems

43. **The Fund and the Bank are conducting a study of IFTS among various developed, transitional and developing countries.** The objective of the research, which has focused initially on the Hawala system, is to study the technical details and functioning mechanisms of IFTS with particular regard to their macroeconomic, financial and regulatory implications, including their potential use for money laundering and the financing of terrorism.

44. **A Fund-Bank fact finding mission visited six countries to study the functioning of the Hawala system.**¹⁶ The mission examined the factors underlying the development of the Hawala system and the extent of its use as well as its economic and regulatory impact. The mission developed a better understanding of the complexity of the transaction structure and settlement arrangements of the Hawala system. The system is largely driven by legitimate remittance activity of expatriate communities. Favorable economics account for the popularity of Hawala transactions. Where the system is active, Hawala transactions are quicker, cheaper, less bureaucratic, more convenient and better adapted to the needs of many expatriate communities than are more formalized funds transfer systems. Where the system is informal, anonymity is an important characteristic. In some countries, financial reforms and increased competition have eroded the cost advantages of informal funds transfer systems.

45. **The informal transfer system responds to legitimate goals. However, its characteristics, mainly anonymity and lack of traceability, have made it vulnerable to criminal activities.** Regulation of IFTS varies considerably from country to country. While the system is prohibited in some countries (Saudi Arabia), it is permitted by other government authorities even though not necessarily supervised. Some countries (the United Kingdom) require registration. Others (Germany) license IFTS dealers. Further research will

¹⁶ The countries visited were Germany, Pakistan, the Philippines, Saudi Arabia, the United Arab Emirates, and the United Kingdom.

be conducted, including on the best way to monitor IFTS and avoid their use by criminals. An information note on the Hawala study mission will be provided to the Fund and Bank Boards around the time of the Spring Meetings. A final report that could take the form of a Working or Occasional Paper will be prepared before the Annual Meetings.

B. Analysis of AML/CFT Legal and Institutional Framework

46. The Fund's Legal Department has conducted a survey of the AML/CFT legal and institutional frameworks of a broad cross-section of countries using the criteria defined in the draft expanded methodology. The survey relies on publicly available documents and will form the basis for an analytical report.

47. The report will analyze trends and issues in AML/CFT. It will be designed to inform the Fund and Bank's work in this area, including in the context of FSAPs and OFC assessments, by illustrating how AML systems are designed and structured in the different legal systems and traditions. The survey will contribute to the development of an analytical database of AML/CFT laws that could be expanded in the future, if needed. Finally, the survey will assist in identifying technical assistance needs. The analytical report will be completed before the annual meetings.