

Chapter X

World Bank and International Monetary Fund Initiatives to Fight Money Laundering and Terrorist Financing

A. Awareness Raising

1. The Global Dialogue Series
2. Country Assistance Strategy

B. Development of a Universal AML/CFT Assessment Methodology

1. Twelve-Month Pilot Program
2. Reports on the Observance of Standards and Codes
3. Revision of the Universal Methodology

C. Building Institutional Capacity

1. Organization of Training Conferences
2. Delivery of Technical Assistance to Individual Countries

D. Research and Analysis

1. Analysis of the Hawala System
2. Alternate Remittance System Studies
3. World Bank AML/CF Website
4. FIU Handbook
5. Reference Guide

The missions of the World Bank (Bank) and the International Monetary Fund (IMF or Fund) are fundamentally different. Nonetheless, both organizations have identical goals with regard to anti-money laundering (AML) and combating the financing of terrorism (CFT). Moreover, the Bank and the Fund work jointly in all of their efforts to achieve those goals.

The basic mission of the Bank is to fight poverty throughout the world. The Bank helps countries strengthen their development efforts by providing loans and technical assistance for institutional capacity building, as well as loans for improvements in the infrastructure and environment of developing countries. The mission of the Bank includes providing resources, sharing knowledge and forging partnerships in the public and private sectors.¹

1. About the World Bank, <http://www.worldbank.org>.

In essence, the mission of the IMF is macro-economic and involves financial stability surveillance throughout the world. IMF goals include:

- Promoting international monetary cooperation;
- Facilitating the expansion and balanced growth of international trade;
- Promoting foreign currency exchange stability; and
- Assisting in the establishment of multilateral systems of payments.

In addition, the Fund promotes international monetary stability by making loans to countries to permit them to correct maladjustments in their balance of payments without resorting to measures that may destroy national or international prosperity.²

In April 2001, the two Boards of Executive Directors of the World Bank and the IMF recognized that money laundering is a problem of global concern that affects major financial markets and smaller ones.³ Taking into account that money laundering has potentially devastating economic, political and social consequences for countries that are in the process of developing domestic economies and building strong financial institutions, the Bank recognized that money laundering can impose important costs upon developing countries. The IMF recognized that money laundering has a full range of macroeconomic consequences, including unpredictable changes in money demand, risks to the soundness of financial institutions and financial systems, and increased volatility on international capital flows and exchange rates due to unanticipated cross border transfers.

Following the events of September 11, 2001, the World Bank and IMF Boards of Executive Directors adopted action plans to enhance efforts for AML/CFT. Furthermore, the Boards recognized, in July and August 2002, *The Forty Recommendations on Money Laundering (The Forty Recommendations)* and the eight *Special Recommendations on Terrorist Financing (Special Recommendations)*, issued by the Financial Action Task Force on Money Laundering (FATF), as the relevant international standards

2. About the IMF, <http://www.imf.org>.

3. For a more detailed discussion of the actions of the Bank and the Fund, see Intensified Work on Anti-Money Laundering and Combating the Financing of Terrorism. Joint Progress Report on Work of the IMF and World Bank, <http://www.imf.org/external/np/mae/aml/2002/eng/092502.htm>.

for AML/CFT. The Boards added AML and CFT to the list of areas that are useful for their operational work and started a 12-month pilot program using a universal, comprehensive AML/CFT assessment methodology in November 2002.

Over the course of the pilot program, the Fund and the Bank conducted assessments in 33 jurisdictions and FATF and the FATF-style regional bodies (FSRBs) conducted assessments in an additional eight jurisdictions. The Boards of the Fund and the Bank reviewed the outcome of the pilot program in March 2004. They concluded that the pilot had been successful and welcomed the deepening of international attention that it had led to on AML/CFT issues and the good collaboration that had taken place with FATF and the FATF-style regional bodies (FSRBs). At that time, the Boards resolved to make AML/CFT work a permanent part of their activities; to continue their collaboration with the FATF; to endorse the revised FATF recommendations as the new standard for which Reports on the Observance of Standards and Codes (ROSCs) are prepared and the revised Methodology to assess that standard; and to devote additional resources to this work in the future. The Fund and Bank expect to conduct approximately 20 assessments per year using the same Methodology used by FATF and the FSRBs.

A. Awareness Raising

1. The Global Dialogue Series

The first step in establishing or improving a country's institutional framework for AML and CFT is to raise the awareness level within the country's leadership about the issues, to demonstrate the implications for the country's future, to share the experiences that other countries have had, and to inform the country about available resources and assistance. Toward that goal, the World Bank and IMF have established a series of Regional Policy Global Dialogues on AML/CFT. These are organized through interactive videoconferences for member countries within a given geographic region enabling government officials from those countries, staff of the Bank and Fund, FATF-Style Regional Bodies (FSRBs), regional development banks and other international organizations to discuss and exchange information. The issues discussed center upon:

- Identifying the challenges faced by countries in the struggle against illicit money flows;
- Sharing the lessons of success;
- Identifying specific problems for countries in that region; and
- Understanding the types of assistance countries need to combat money laundering and terrorist financing.

Some of the key questions addressed in the Global Dialogue Series are:

- How can the World Bank and IMF help countries strengthen their response to money laundering and terrorist financing?
- How does money laundering and terrorist financing fit into the broader context of corruption and poor governance?
- What has been the response of governments?
- What are the current challenges for regulators?
- What is the appropriate institutional structure for each country in implementing an effective program to fight money laundering and terrorist fighting?
- What are the future challenges in combating money laundering and terrorist financing in participating countries?

To answer those questions, senior policymakers in the participating countries offer their views on the economic costs of criminal abuse of financial systems, particularly money laundering and the financing of terrorism. Other points for discussion include practical means of sustaining economic development and financial market integrity in the face of such threats. The dialogue helps countries to learn from each other by drawing on their particular experiences as well as the broader experience of international experts.

2. Country Assistance Strategy

The Bank is integrating the results of the Financial Sector Assistance Program (FSAP) into the broader range of development measures considered in the Country Assistance Strategy (CAS), which sets out the priorities for the Bank's program for a given country on a three-year basis in consultation

with the government of that country. Following systematic reviews of FSAP findings, AML/CFT assistance has already been included in more than 30 CASs prepared since March 2002. Technical assistance is given high priority in countries where weaknesses in the integrity of the AML/CFT regime may pose significant governance and development risks. CASs also address AML/CFT issues in greater detail in countries that have been deficient in meeting international standards and best practices.

The Fund has integrated AML/CFT components into its Article IV surveillance.⁴ In addition to Financial System Stability Assessment (FSSA) reports to the Executive Board (which summarize the outcome of FSAPs, including the AML/CFT assessments), results from the AML/CFT questionnaire have been incorporated in more than 70 Article IV discussions since January 2002.

B. Development of a Universal AML/CFT Assessment Methodology

Over the course of 2002, the Bank and IMF worked in close collaboration with FATF and other international standard setters, i.e., the Basel Committee on Banking Supervision (Basel Committee), International Association of Securities Commissioners (IOSCO), International Association of Insurance Supervisors (IAIS) and the Egmont Group, to produce a single, comprehensive AML/CFT assessment methodology. This methodology was agreed and endorsed by FATF at its October 2002 Plenary meeting. The methodology consisted of 120 criteria covering each of the FATF *Forty* and *Special Recommendations*, including implementation of criminal law enforcement.⁵ It covered the legal and institutional AML/CFT framework for a country, including the establishment of financial intelligence units (FIUs). The methodology also covered relevant United Nations (UN) Security Council Resolutions and international conventions and other measures of international standard setters. It provided an in-depth assessment of the preventive measures for financial institutions.

4. About the IMF, <http://www.imf.org>.

5. Methodology on AML/CFT, http://www.fatf-gafi.org/pdf/Meth-2004_en.PDF.

Following the revision of *The Forty Recommendations* in June 2003, the Bank and Fund worked with the FATF and FSRBs to produce a revised assessment methodology. This was endorsed by the FATF in February 2004 and by the Bank and Fund Boards in March 2004. It incorporates over 200 “essential criteria” against which countries will be assessed for their compliance with the FATF standards and some “additional criteria” which, although not part of the standard against which compliance is rated, comprise international best practices and will be part of the assessment. There are considerably more criteria than in the previous version of the methodology, reflecting the extension of the standards agreed in 2003.

The methodology will be used by the international organizations in their evaluations of AML/CFT controls carried out as part of their overall assessments of a country’s compliance with international financial standards in the FSAP and OFC processes. They will result in a ROSC for AML/CFT, which will be reported to the Executive Boards of the Bank and the Fund. The methodology will also be used by the FATF and FSRBs in their mutual evaluations. FATF and the FSRBs will prepare a ROSC as part of their mutual evaluations, which will be recognized by the Bank and the Fund.

The process is one in which the FATF, FSRBs, the Bank, and the Fund each carry out assessments using the same methodology and agree to recognize each others reports. The organizations work together to establish a sensible schedule for assessments, which fits in with the FSAP/OFC schedule of the international financial institutions and FATF/FSRB mutual evaluation timetables. It is expected that the Fund and the Bank will conduct approximately 20 assessments per year, and that FATF and the FSRBs will conduct about the same number. This schedule should allow every country to receive a full assessment approximately once every five years.

C. Building Institutional Capacity

1. The Organization of Training Conferences

The Bank and Fund hold targeted training conferences on specific AML/CFT issues, utilizing public officials involved in AML/CFT from a particular

region. For example, during 2002, two technical assistance conferences took place: one in Montevideo, Uruguay, and one in Moscow, Russia.

The Moscow conference is illustrative of the type of information presented. The focus of the conference was the creation of operational Financial Intelligence Units (FIUs). The conference was aimed at those countries that either do not have operational FIUs or that have just started operating them. The primary aim of the conference was to involve experts from Eastern European countries that have recently achieved AML/CFT compliance standards, and allow officials from those countries to present their experience and best practices.

The conference was also a useful mechanism to help countries and organizations that provide AML/CFT technical assistance understand where the most urgent needs are, and to enable them to make personal contacts with government officials of those countries so future assistance might be more readily and easily provided.

The conference was successful in demonstrating the importance of attention to AML/CFT issues, and presenting the various requirements of international standards in such a manner that officials from participating countries could understand. It also demonstrated the specific steps necessary to begin taking action in their respective countries. Additionally, government officials were able to make personal contacts with experts in the field as well as their counterparts in their own neighboring countries, which makes obtaining advice and assistance in implementing AML/CFT less burdensome.

A further workshop was held in South Africa in May 2004, involving the 14 member countries of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). It was organized by ESAAMLG with the participation of the Bank and Fund and included experts from several other international organizations and countries. The aim of the workshop was to inform policy makers from the ESAAMLG countries of the basic elements of a national strategy to counter money laundering and terrorist financing and work with them to develop their strategies to tackle the major AML/CFT issues in each country. The participants worked at the meeting to produce outline strategies which were then to be further developed in the country before being finalized and presented to the ESAAMLG plenary in August 2004.

2. Delivery of Technical Assistance to Individual Countries

The Bank and the Fund are providing various forms of technical assistance (TA) to countries that want to establish or improve their AML/CFT regimes.⁶ Since April of 2001, these TA efforts have increased. The Bank and Fund use the findings from the FSAPs and separate AML/CFT reviews as a means of determining what TA is needed and prioritizing the TA.

For developing countries, AML/CFT TA is included in a jurisdiction's CAS, which sets out the priorities for the Bank's assistance program on a three-year basis in consultation with the government of the country. In particular, TA is given high priority in countries where weakness in the integrity of the AML/CFT may pose significant governance and developmental risks.

The focus of the Bank's and the Fund's TA for AML/CFT is 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 similar competent authorities charged with responsibility for enforcement of AML/CFT measures;
- Establishment of legal frameworks for financial intelligence units (FIUs) that meet international best practices;
- Development of training and awareness programs to address AML/CFT concerns in the public and private sectors;
- Collaboration with other parties in multinational training programs; and development of computer-based training materials.

In the two-year period leading up to the March 2004 decision by the Bank and Fund boards to make AML/CFT a permanent part of their work programs, the Bank and Fund delivered 85 country-specific technical assistance projects reaching 63 countries and 32 regional projects reaching over 130 countries.

6. Intensified Work on AML/CFT, paragraphs 39 and 40. See http://finsec.worldbank.org/assets/images/AML-CFT_Methodology_SecM2002-0554.pdf.

D. Research and Analysis

1. Analysis of the Hawala System

The Bank and the Fund conducted a study on the operational characteristics of informal funds transfer systems (IFTs), commonly referred to as *Hawalas*.⁷ The study examines the historical and socioeconomic context within which *Hawalas* have evolved. In this regard, their growth is rooted primarily in the facilitation of trade between distant geographic locations at a time when conventional banking instruments were either weak or nonexistent.

The study also analyzes the operational features of IFTs for both legitimate and illegitimate purposes. These operational features are mainly speed, lower transaction costs, ethnic and cultural convenience and familiarity, versatility and potential anonymity. In addition, IFTs have prospered in countries where financial institutions are inefficient and financial policies are restrictive. Finally, like any underground economic activity, IFTs have implications for monetary control; influencing exchange rate operations; distorting economic data, (and, thereby, statistical information available to policy makers); and reducing taxes on income and services.

The study further discusses the implications for regulatory and supervisory responses to this type of activity. Recommendation VI of FATF's *Special Recommendations* recommends that countries treat *Hawalas* and other IFTs as part of the regulated system, subject to many of the same AML/CFT requirements as covered financial institutions.⁸ More countries are subjecting these entities to licensing or registration in accordance with the FATF recommendation.

2. Alternative Remittances Systems Studies

In September of 2002, the Asia-Pacific Economic Cooperation (APEC) Finance Ministers established a working group on alternative remittance systems (ARS) to examine the economic, structural and regulatory factors

7. http://www1.worldbank.org/finance/html/amlcft/docs/IFTS_IMF/IFTS_Contents.pdf.

8. http://www.fatf-gafi.org/pdf/SRecTF_en.pdf.

that encourage the use of ARS in the APEC economies. In support of the project, the World Bank prepared a report that creates a framework for estimating the magnitude of remittances flows, analyzes incentives for formal versus informal channels, and examines the role of formal financial sectors in the provision of remittance services that are compliant with international AML/CFT standards.⁹

As part of the APEC ARS Initiative follow-up, and as part of an effort to increase the World Bank's involvement in studying the important topic of ARSs for all of its clients, comparative case studies have been planned for specific economies. Research findings and conclusions of these case studies will be shared as part of the exchange of ideas and experiences. This is an ongoing project; the findings from different studies will be reported and available on the Bank's AML/CFT website.

3. World Bank AML/CFT Website

The Bank operates a website specifically for AML/CFT purposes.¹⁰ This website contains up-to-date information about the Bank's programs and efforts to combat money laundering and terrorist financing. It also contains reference materials and publications, such as this Reference Guide. The website may be accessed at www.amlcft.org. Those wishing to contact the Bank on AML/CFT matters should write aml@worldbank.org.

4. FIU Handbook

In 2004, the Fund and the Bank jointly published a handbook on virtually all aspects of the establishment and operation of financial intelligence units (FIUs). The handbook is entitled *Financial Intelligence Unit, An Overview*.¹¹

9. See <http://www.amlcft.org>, APEC Symposium on Remittances.

10. <http://www.amlcft.org>.

11. The handbook is available for purchase from the IMF. It is also available for viewing (read-only) on the Bank's AML/CFT website, <http://www.amlcft.org>.

The handbook covers a wide array of topics relating to FIU, including:

- Key steps for establishing an FIU,
- Basic models of operation,
- Core functions,
- Additional functions, and
- International assessments.

5. The Reference Guide

This Reference Guide on AML and CFT is a product of the Bank's and Fund's efforts to fight money laundering and terrorist financing. When policy makers looked at the AML/CFT material available to a country, particularly a developing country with limited experience in the area, it quickly became apparent that there was no single source that could be used to address all the issues. Hence, the Bank and Fund commissioned this Reference Guide as a means to make access to all relevant information available from a single and comprehensive source.

The first edition was published in 2003 and made available in five languages (English, French, Russian, Arabic and Spanish). This second edition has been prepared as an update, following the revision of *The Forty Recommendations* in June 2003,¹² the revised Methodology for assessments in 2004,¹³ other changes in relevant materials, and subsequent developments in Fund and Bank AML/CFT programs and activities.

The Reference Guide is available on the Bank's website, <http://www.amlcft.org/>, and will also be translated into other languages.

12. http://www.fatf-gafi.org/pdf/40Recs-2003_en.pdf.

13. <http://www1.worldbank.org/finance/html/amlcft/methodology.htm>.

