



Fighting Money Laundering & Terrorist Financing

Hussam A.Al-Abed

General Manager -Risk Management Consultants

Advisory Board Member

The Association of Certified Anti- Money Laundering Specialists-ACAMS

- Introduction
- Why We Must Fight, Money Laundering & Terrorist Financing?
- The Economic Effects of Money Laundering
 - Exposed emerging markets
 - Undermining the legitimate private sector
 - Undermining the integrity of financial markets
 - Loss of control of economic policy
 - Economic distortion and instability
 - Loss of revenue
 - Risks to privatization efforts
 - Reputation risk
 - Social costs
 - Corruption and organized crime
- International Anti-Money Laundering & Terrorist Financing Initiatives:
 - The Financial Action Task Force (FATF)
 - Non-Cooperative Countries and Territories
 - FATF Forty Recommendations on Money Laundering
 - Combating the Financing of Terrorism
 - The FATF and the International Financial Institutions
 - United Nations
 - United Nations Security Council Resolutions
 - United Nations Security Council Resolution 1373
 - UN International Convention for the Suppression of the Financing of Terrorism
 - UN Convention against Transnational Organized Crime
 - UN Convention against Corruption
 - United Nations Global Programme against Money Laundering
- The World Bank and the International Monetary Fund
- Asia/Pacific Group on Money Laundering
- Caribbean Financial Action Task Force
- Council of Europe MONEYVAL
- Eastern and Southern African Anti-Money Laundering Group
- Financial Action Task Force Against Money Laundering in South America
- Inter-Governmental Action Group against Money Laundering (GIABA)
- Caribbean Anti-Money Laundering Programme
- The Egmont Group of Financial Intelligence Units
- Resources

Introduction

Money laundering and Terrorist Financing are issues that concern countries at every stage of development, these are global problems that not only affect security, but also potentially harm economic prosperity and the international financial system.

Money laundering generally involves a series of multiple transactions used to disguise the source of financial assets so that those assets may be used without compromising the criminals who seek to use the funds. These transactions typically fall into three stages: (1) Placement, the process of placing, through deposits, wire transfers, or other means, unlawful proceeds into financial institutions; (2) Layering, the process of separating the proceeds of criminal activity from their origin through the use of layers of complex financial transactions; and (3) Integration, the process of using an apparently legitimate transaction to disguise the illicit proceeds.

Why We Must Fight Money Laundering & Terrorist Financing

Money laundering is organized crime's way of trying to disprove the adage that "crime doesn't pay." It is an attempt to assure drug dealers, illegal arms dealers, corrupt public officials and other criminals that they can hide their profits and to provide them the fuel to operate and expand their criminal enterprises. Fighting money launderers and strengthening anti-money laundering regimes globally will reduce financial crime by depriving criminals of the means to commit other serious crimes. As the tragic events of September 11 graphically demonstrated, crime has become global, and the financial aspects of crime have become more complex, due to rapid advances in technology and the globalization of the financial services industry. Modern financial systems, in addition to facilitating legitimate commerce, permit criminals to transfer millions of dollars instantly, using personal computers and satellite dishes. Only his or her creativity limits the criminal's choice of money laundering vehicles. Money is laundered through currency exchange houses, stock brokerage houses, gold dealers, casinos, automobile dealerships, insurance companies, and trading companies. Private banking facilities, offshore banking, shell corporations, free trade zones, wire systems, and trade financing all have the ability to mask illegal activities. In so doing, criminals manipulate financial systems throughout the world.

There is now worldwide recognition that we must deal firmly and effectively with increasingly elusive, well-financed and technologically adept criminals and terrorists who are determined to use every means available to subvert the financial systems that are the cornerstone of legitimate international commerce. The continued abuse of some offshore financial centers, the proliferation of on-line Internet banking and the widespread use of underground banks and money-changers highlight the importance of using new technologies and strong strategies to combat money laundering and terrorist financing schemes.

The Economic Effects of Money Laundering

Money laundering and terrorist financing can have devastating economic, security, and social consequences. It provides the fuel for drug dealers, terrorists, illegal arms dealers, corrupt public officials, and others to operate and expand their criminal enterprises. Crime has become increasingly international in scope, and the financial aspects of crime have become more complex due to rapid advances in technology and the globalization of the financial services industry.

Exposed Emerging Markets

Money laundering is a problem not only in the world's major financial markets and offshore centers, but also for emerging markets. Indeed, any country integrated into the international financial system is at risk. As emerging markets open their economies and financial sectors, they become increasingly viable targets for money laundering activity. Increased efforts by authorities in the major financial markets and in many offshore financial centers to combat this activity provide further incentive for launderers to shift activities to emerging markets. There is evidence, for example, of increasing cross-border cash shipments to markets with loose arrangements for detecting and recording the placement of cash in the financial system and of growing investment by organized crime groups in real estate and businesses in emerging markets. Unfortunately, the negative impacts of money laundering tend to be magnified in emerging markets.

A closer examination of some of these negative impacts in both the micro- and macroeconomic realms helps explain why money laundering is such a complex threat, especially in emerging markets.

Undermining the Legitimate Private Sector: One of the most serious microeconomic effects of money laundering is felt in the private sector. Money launderers often use front companies, which co-mingle the proceeds of illicit activity with legitimate funds, to hide the ill-gotten gains. These front companies have access to substantial illicit funds, allowing them to subsidize front company products and services at levels well below market rates. In some cases, front companies are able to offer products at prices below what it costs the manufacturer to produce. Thus, front companies have a competitive advantage over legitimate firms that draw capital funds from financial markets. This makes it difficult, if not impossible, for legitimate business to compete against front companies with subsidized funding, a situation that can result in the crowding out of private sector business by criminal organizations. Clearly, the management principles of these criminal enterprises are not consistent with traditional free market principles of legitimate business, which results in further negative macroeconomic effects.

Undermining the Integrity of Financial Markets: Financial institutions that rely on the proceeds of crime have additional challenges in adequately managing their assets, liabilities and operations. For example, large sums of laundered money may arrive at a financial institution but then disappear suddenly, without notice, through wire transfers in response to non-market factors, such as law enforcement operations. This can result in liquidity problems and runs on banks. Indeed, criminal activity has been associated with a number of bank failures around the globe, including the failure of the first Internet bank, the European Union Bank. Furthermore, some financial crises of the 1990s -- such as the fraud, money laundering and bribery scandal at BCCI and the 1995 collapse of Barings Bank as a risky derivatives scheme carried out by a trader at a subsidiary unit unraveled -- had significant criminal or fraud components.

Loss of Control of Economic Policy: In some emerging market countries, illicit proceeds may dwarf government budgets, resulting in a loss of control of economic policy by governments. Indeed, in some cases, the sheer magnitude of the accumulated asset base of laundered proceeds can be used to corner markets -- or even small economies. Money laundering can also adversely affect currencies and interest rates as launderers reinvest funds where their schemes are less likely to be detected, rather than where rates of return are higher. Moreover, money laundering can increase the threat of monetary instability due to the misallocation of resources from artificial distortions in asset and commodity prices.

In short, money laundering and financial crime may result in inexplicable changes in money demand and increased volatility of international capital flows, interest, and exchange rates. The unpredictable nature of

money laundering, coupled with the attendant loss of policy control, may make sound economic policy difficult to achieve.

Economic Distortion and Instability: Money launderers are not interested in profit generation from their investments but rather in protecting their proceeds. Thus, they "invest" their funds in activities that are not necessarily economically beneficial to the country where the funds are located. Furthermore, to the extent that money laundering and financial crime redirect funds from sound investments to low-quality investments that hide their proceeds, economic growth can suffer. In some countries, for example, entire industries, such as construction and hotels, have been financed not because of actual demand, but because of the short-term interests of money launderers. When these industries no longer suit the money launderers, they abandon them, causing a collapse of these sectors and immense damage to economies that could ill afford these losses.

Loss of Revenue: Money laundering diminishes government tax revenue and therefore indirectly harms honest taxpayers. It also makes government tax collection more difficult. This loss of revenue generally means higher tax rates than would normally be the case if the untaxed proceeds of crime were legitimate.

Risks to Privatization Efforts: Money laundering threatens the efforts of many states to introduce reforms into their economies through privatization. Criminal organizations have the financial wherewithal to outbid legitimate purchasers for formerly state-owned enterprises. Furthermore, while privatization initiatives are often economically beneficial, they can also serve as a vehicle to launder funds. In the past, criminals have been able to purchase marinas, resorts, casinos, and banks to hide their illicit proceeds and further their criminal activities.

Reputation Risk: Nations cannot afford to have their reputations and financial institutions tarnished by an association with money laundering, especially in today's global economy. Confidence in markets and in the signaling role of profits is eroded by money laundering and financial crimes such as the laundering of criminal proceeds, widespread financial fraud, insider trading of securities, and embezzlement. The negative reputation that results from these activities diminishes legitimate global opportunities and sustainable growth while attracting international criminal organizations with undesirable reputations and short-term goals. This can result in diminished development and economic growth. Furthermore, once a country's financial reputation is damaged, reviving it is very difficult and requires significant government resources to rectify a problem that could be prevented with proper anti-money-laundering controls.

Social Costs: There are significant social costs and risks associated with money laundering. Money laundering is a process vital to making crime worthwhile. It allows drug traffickers, smugglers, and other criminals to expand their operations. This drives up the cost of government due to the need for increased law enforcement and health care expenditures (for example, for treatment of drug addicts) to combat the serious consequences that result. Among its other negative socioeconomic effects, money laundering transfers economic power from the market, government, and citizens to criminals. In short, it turns the old adage that crime does not pay on its head. Furthermore, the sheer magnitude of the economic power that accrues to criminals from money laundering has a corrupting effect on all elements of society. In extreme cases, it can lead to the virtual take-over of legitimate government.

Corruption and organized crime. Corrupt public officials need to be able to launder bribes, kick-backs, public funds and, on occasion, even development loans from international financial institutions. Organized criminal groups need to be able to launder the proceeds of drug trafficking and commodity smuggling. Terrorist groups use money laundering channels to get cash to buy arms. The social consequences of allowing these three groups access to the capacity to launder money can be disastrous. Taking the proceeds

of their crimes from corrupt public officials, traffickers and organized crime groups is one of the best ways to stop them in their tracks.

International Anti-Money Laundering & Terrorist Financing Initiatives:

The Financial Action Task Force (FATF)

The Financial Action Task Force on Money Laundering (FATF), established at the G-7 Economic Summit in Paris in 1989, is an inter-governmental body whose purpose is the development of international standards and the promotion of policies aimed at combating money laundering and the financing of terrorism.

The FATF originally was given the responsibility of examining money laundering techniques and trends, evaluating anti-money laundering measures, and recommending additional steps to be taken. In 1990, FATF first issued its Forty Recommendations on Money Laundering. These recommendations were designed to prevent proceeds of crime from being utilized in future criminal activities and affecting legitimate economic activity. Revised in 1996, and most recently in 2003, to reflect changes in money laundering patterns, these recommendations, along with the FATF Eight Special Recommendations on Terrorist Financing, are widely acknowledged as the international standards in these areas. FATF focused on several major initiatives during 2003.

FATF monitors members' progress in implementing anti-money laundering measures, examines money laundering techniques and countermeasures, and promotes the adoption and implementation of effective anti-money laundering measures globally. In performing these activities, FATF collaborates with various other international organizations, including several FATF-style regional bodies.

In June 2003, membership in the FATF expanded from 31 to 33 jurisdictions--with the addition of South Africa and Russia--and includes two regional organizations. FATF members collectively represent the major financial centers of North America, South America, Europe, Africa, Asia, and the Pacific. The FATF member delegations are drawn from a wide range of disciplines, including experts from Ministries of Finance, Justice, Interior and Foreign Affairs; financial supervisory authorities; and law enforcement agencies. Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council, Hong Kong China, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Kingdom of the Netherlands, New Zealand, Norway, Portugal, Russian Federation, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, United Kingdom and the United States are members of FATF.

Non-Cooperative Countries and Territories

In 2000, the FATF published its first list of jurisdictions deemed non-cooperative in the global fight against money laundering (NCCT). Inclusion on the list was determined by an assessment of the jurisdiction against 25 distinct criteria covering the following four broad areas:

- Loopholes in financial regulations;
- Obstacles raised by other regulatory requirements;
- Obstacles to international cooperation; and,
- Inadequate resources for preventing and detecting money laundering activities.

In deciding whether a jurisdiction should be removed from the NCCT list, the FATF membership must be satisfied that a jurisdiction has addressed the previously identified deficiencies. The FATF relies on its collective judgment, and attaches particular importance to reforms in the areas of criminal law, financial supervision, customer identification, suspicious activity reporting, and international co-operation. As necessary, legislation and regulations must have been enacted and have come into effect before removal from the list may be considered. Additionally, the FATF seeks to ensure that the jurisdiction is implementing needed reforms. Thus, information related to institutional arrangements, the filing and utilization of suspicious activity reports, examinations of financial institutions, and the conduct of money laundering investigations, is considered.

FATF Forty Recommendations on Money Laundering

The FATF Forty Recommendations on Money Laundering constitute the generally accepted international anti-money laundering standard and cover such relevant areas as regulatory, supervisory and criminal law, as well as international cooperation.

Money laundering methods and techniques change as new measures to combat money laundering are implemented and new technologies are developed. Therefore, in 2001, FATF embarked on a review of the FATF Forty Recommendations to ensure that they were current. This effort was concluded in June 2003, when the FATF released its latest revised Forty Recommendations. The following are among the more prominent changes in these revised recommendations:

- Expansion of Criminal Money Laundering Laws;
- Enhanced Due Diligence for Correspondent Banking;
- Increased Scrutiny for Politically Exposed Persons;
- Prohibition of Shell Banks;
- Justifying Use of Bearer Shares;
- Expansion of Definition of “Financial Institution”;
- Application of AML Provisions to Gatekeepers; and
- Tightening Third Party Introducer Standards.

Combating the Financing of Terrorism

Shortly after September 11, 2001, the FATF mandate was expanded beyond money laundering to support the worldwide effort to combat terrorist financing. During an extraordinary plenary meeting in Washington, D.C. on October 29-30, 2001, FATF adopted Eight Special Recommendations on Terrorist Financing. These Special Recommendations now represent the international standard in this area.

The FATF membership has completed self-assessments against the Eight Special Recommendations, and the FATF has called upon all countries and jurisdictions to take part in a similar exercise. During 2003, the FATF worked to provide additional interpretation and guidance with respect to its recommendations on terrorist financing. Included in this effort was the issuance of an interpretive note and a best practices paper on alternative remittance systems and an interpretive note on wire transfers (Special Recommendations VI and VII respectively). More recently, the FATF issued, in October 2003, an interpretive note to Special Recommendation III, involving the freezing and confiscating of terrorist assets. The FATF additionally offered a summary of international best practices on SR III with specific regard to the freezing of terrorist assets.

The FATF continues to work with jurisdictions that lack appropriate measures to combat terrorist financing. At the October 2003 Plenary, FATF launched an assessment initiative in collaboration with the G-8's Counter Terrorism Action Group (CTAG). At the request of CTAG, FATF has begun assessing the counterterrorist financing technical assistance needs of several jurisdictions. These assessments and follow up assistance by CTAG donor countries will assist countries in strengthening their counterterrorist financing regimes and in meeting the standards set by the FATF Eight Special Recommendations as well as the relevant UN Security Council resolutions.

The FATF and the International Financial Institutions

Money laundering and the financing of terrorism are worldwide concerns that undermine the integrity of domestic and global financial systems, increase risks and may impact national security. Since September 11, 2001, the international community has adopted a broad and comprehensive agenda to address these threats. As an important part of that effort, the International Financial Institutions (IFIs), notably the World Bank and the International Monetary Fund (IMF), have agreed to take on an enhanced role in the global fight against money laundering and the financing of terrorism.

A significant part of this enhanced role involves integrating anti-money laundering and counterterrorist financing (AML/CTF) considerations into the IFIs' financial sector assessment, surveillance and diagnostic activities. There has been increased recognition of the need for the IMF and World Bank to increase their involvement in strengthening financial regulatory frameworks and in providing technical assistance to authorities on AML/CTF matters.

The IMF and World Bank are now including assessments of members' AML/CTF regimes in the course of their Financial Sector Assessment Program (FSAP) reviews and in other aspects of their engagement with members. The IMF and World Bank collaborated closely with the FATF, other international standard setters (the Basel Committee of Banking Supervisors, the International Association of Insurance Supervisors, the International Organization of Securities Commissions) and the Egmont Group of Financial Intelligence Units to develop a comprehensive and unified methodology for measuring countries' implementation of AML/CTF principles, based on the FATF Forty Recommendations on Money Laundering and the FATF Eight Special Recommendations on Terrorist Financing.

In the fall of 2002, the FATF membership adopted, and the IMF and World Bank Executive Boards agreed to use, the comprehensive methodology to assess member compliance with AML/CTF principles. As an integral part of the enhanced program, the Executive Boards of the IMF and World Bank approved a twelve-month pilot project to assess members' compliance with AML/CTF principles using the methodology in participation with FATF and FATF-Style Regional Bodies. The United States and other G-7 members have volunteered to be assessed using the new AML/CTF methodology. The pilot project concluded at the end of 2003 and is now under review and evaluation. Subsequent to the release in June 2003 of the new FATF Forty Recommendations, the FATF, in cooperation with the IFIs, began revising the comprehensive assessment methodology. The revised methodology is expected to be completed and adopted by the FATF in February 2004.

United Nations

United Nations Security Council Resolutions

UN Security Council Resolutions (UNSCR) 1267, 1390 and 1455 obligate UN Member States to impose certain measures—namely, asset freezes, travel restrictions and an arms embargo—against individuals and entities associated with Osama Bin Ladin, or members of al-Qaida or the Taliban that are included on the consolidated list maintained and regularly updated by the UN 1267 Sanctions Committee. UNSCR 1452 allows for limited exceptions to the asset freeze provisions under certain circumstances. A Monitoring Group reports to the UN 1267 Sanctions Committee on the implementation of the resolutions.

United Nations Security Council Resolution 1373

On September 28, 2001 the United Nations Security Council adopted Resolution 1373 (UNSCR 1373) concerning terrorism. UNSCR 1373 requires States to take certain specified measures to combat terrorism. Among other things, it requires States to do the following: to freeze without delay funds, financial assets or other economic resources of persons who commit, attempt to commit, facilitate or participate in the commission of terrorist acts; to prohibit their nationals or any persons and entities within their territories from making any funds, financial assets or economic resources or other related services available—directly or indirectly—for the benefit of persons who commit, attempt to commit, facilitate or participate in the commission of terrorist acts; to ensure that terrorist acts are established as serious criminal offenses in domestic laws and regulations and that punishment duly reflects the seriousness of such terrorist acts; to deny safe haven to those who finance, plan, support or commit terrorist acts; and, to ensure that any person who participates in the financing, planning, preparation or perpetration of terrorist acts is brought to justice. UNSCR 1373 calls upon States to exchange information and cooperate to prevent the commission of terrorist acts.

UNSCR 1373 establishes a committee, the UN Counter-Terrorism Committee (CTC), to monitor implementation of the resolution and to receive reports from States on steps they have taken to implement the resolution. By the end of 2003, all 191 UN Member States had submitted reports to the CTC on their counterterrorism capabilities and steps they had taken to implement UNSCR 1373. In addition, 158 Member States had submitted follow-up second reports and 99 Member States had submitted third reports.

UN International Convention for the Suppression of the Financing of Terrorism

On December 9, 1999, the United Nations General Assembly adopted the International Convention for the Suppression of the Financing of Terrorism. It was opened for signature from January 10, 2000 to December 31, 2001. This Convention requires parties to criminalize the provision or collection of funds with the intent that they be used, or in the knowledge that they are to be used, to conduct certain terrorist activity. Article 18 of the Convention requires states parties to cooperate in the prevention of terrorist financing by adapting their domestic legislation, if necessary, to prevent and counter preparations in their respective territories for the commission of offenses specified in Article 2. To that end, Article 18 encourages implementation of numerous measures consistent with the FATF Forty Recommendations on Money Laundering. These measures, which states parties implement at their discretion, include the following: prohibiting accounts held by or benefiting people unidentified or unidentifiable; verifying the identity of the real parties to transactions; and, requiring financial institutions to verify the existence and the structure of the customer by obtaining proof of incorporation.

The Convention also encourages states parties to obligate financial institutions to report complex or large transactions and unusual patterns of transactions that have no apparent economic or lawful purpose, without incurring criminal or civil liability for good faith reporting; to require financial institutions to maintain records for five years; to supervise (for example, through licensing) money-transmission agencies; and to monitor the physical cross-border transportation of cash and bearer-negotiable instruments. Finally, the Convention addresses information exchange, including through the International Criminal Police Organization (Interpol). As of December 31, 2003, 107 states had become parties to the Convention; 25 other states had signed, but not ratified, the Convention. It entered into force internationally on April 9, 2002.

UN Convention against Transnational Organized Crime

The UN Convention against Transnational Organized Crime (Convention) was signed by 125 countries, at a high-level signing conference December 12-14, 2000 in Palermo, Italy. It is the first legally binding multilateral treaty specifically targeting transnational organized crime. Two supplemental Protocols addressing trafficking in persons and migrant smuggling were also signed by many countries in Palermo. Each instrument enters into force on the ninetieth day after the 40th state deposits an instrument of ratification, acceptance, approval or accession. The Convention entered into force September 29, 2003, and the Protocol to Prevent, Suppress and Punish Trafficking in Persons, Especially Women and Children entered into force December 25, 2003. However, at the end of 2003, the Protocol against the Smuggling of Migrants by Land, Sea and Air had not yet entered into force. As of the end of 2003, 147 countries had signed the Convention and 59 countries had deposited instruments of ratification.

The Convention takes aim at preventing and combating transnational organized crime through a common toolkit of criminal law techniques and international cooperation. It requires states parties to have laws criminalizing the most prevalent types of criminal conduct associated with organized crime groups, including money laundering, obstruction of justice, corruption of public officials and conspiracy. The article on money laundering regulation requires parties to institute a comprehensive domestic regulatory and supervisory regime for banks and financial institutions to deter and detect money laundering. The regime will have to emphasize requirements for customer identification, record keeping and reporting of suspicious transactions.

UN Convention against Corruption

The UN Convention against Corruption (Convention), signed by 96 countries, at a high-level signing conference December 9-11, 2003 in Merida, Mexico, is the first legally binding multilateral treaty to address on a global basis the problems relating to corruption. The Convention expands on the provisions of existing regional anti-corruption instruments to prevent corruption and provides channels for governments to recover assets that have been illicitly acquired by corrupt former officials. The Convention also provides for the criminalization of certain corruption-related activities such as bribery and money laundering, and for the provision of mutual legal assistance related to those activities. As the Convention against Transnational Organized Crime does, this Convention requires parties to institute a comprehensive domestic regulatory and supervisory regime for banks and financial institutions to deter and detect money laundering. That regime must emphasize requirements for customer identification, record keeping and reporting of suspicious transactions.

United Nations Global Programme against Money Laundering

The United Nations Global Programme against Money Laundering (GPML), part of the United Nations Office on Drugs and Crime (UNODC), was established in 1997 to assist Member States to comply with the UN Conventions and other instruments that deal with money laundering. These now include the United Nations Convention against Trafficking in Narcotics and Psychotropic Substances (the Vienna Convention), the United Nations Convention against Transnational Organized Crime, and the United Nations Convention against Corruption. GPML is the focal point for AML within the UN system and provides technical assistance and training in the development of related legislation, infrastructure and skills, directly assisting Member States in the detection, seizure and confiscation of illicit proceeds.

Since 2001, the GPML has broadened this work to help Member States counter the financing of terrorism. GPML now incorporates a focus on counterterrorist financing (CTF) in all its technical assistance work. In 2003, GPML completed model CTF legislative provisions for common law systems, and continued to work closely with the U.S. Department of Justice and the Organization for Security and Cooperation in Europe (OSCE) to deliver CTF training, particularly in the Central Asia region and Africa.

GPML provided technical assistance and training to more than 50 countries and jurisdictions throughout the world in 2003. The UN mentor based in Tanzania, with the Secretariat of the Eastern and Southern African Anti-Money Laundering Group (ESAAMLG), provided training to 14 countries and assisted the Secretariat and Member States in preparing for FATF-style mutual evaluations. The GPML's Mentor Programme is one of the most successful and well-known activities of international AML/CTF technical assistance and training, and is increasingly serving as a model for other organizations' initiatives. It is one of the core activities of the GPML technical assistance program. In 2003, GPML consolidated the program, providing on-the-job training that adapts international standards to specific local/national situations, rather than traditional, generic training seminars. The concept originated in response to repeated requests from Member States for longer-term international assistance in this technically demanding and rapidly evolving field. GPML provides experienced prosecutors and law enforcement personnel who work side-by-side with their counterparts in a target country for several months at a time on daily operational matters to help develop capacity. Some advise governments on legislation and policy, while others focus on operating procedures. Regional mentors in Africa, Asia-Pacific and the Caribbean have significantly added to GPML's capacity.

GPML runs the Anti-Money Laundering International Database (AMLID) on the International Money Laundering Information Network (IMoLIN), an online, password-restricted analytical database of national AML legislation, available only to public officials. In 2003, a UN team, including the GPML, began a complete technical and substantive renovation of AMLID, scheduled for completion in March 2004. GPML also maintains an online AML/CTF legal library. IMoLIN (www.imolin.org) is a practical tool in daily use by government officials, law enforcement and lawyers. The Programme runs this database on behalf of the UN and eight major international partners in the field of anti-money laundering: the Asia/Pacific Group on Money Laundering (APG), the Caribbean Financial Action Task Force (CFATF), the Commonwealth Secretariat, the Council of Europe, the Financial Action Task Force (FATF), Interpol, the Organization of American States (OAS) and the World Customs Organization. The GPML is constantly updating the relevant information on international/national measures, conventions and legislation.

The World Bank and the International Monetary Fund

Since 1997, the IMF's role in promoting good governance has expanded considerably. The main initiative has been to encourage transparency and accountability in economic policies through the development and promotion of internationally recognized standards, and codes of good practices in data dissemination; fiscal, monetary and financial policy transparency; and banking, insurance and securities regulation and supervision, and payment system oversight. The Fund also introduced minimum standards for the control, accounting, reporting and auditing systems of the central banks of countries to which it lends, this in order to safeguard the use of Fund resources. In its work, the IMF increasingly emphasizes the need for adequate systems for tracking public expenditure on poverty reduction; while important for all poor countries, this is particularly so for the group of heavily indebted poor countries (HIPCs) receiving debt relief. Finally, the IMF is intensifying its involvement in international anti-money laundering and combating the financing of terrorism. These efforts are aimed at ensuring the integrity of countries' financial systems. In addition, countering money laundering supports the international anti-corruption drive. It makes it more difficult to hide bribes in bank accounts abroad thereby reducing the rewards, which in turn should discourage the soliciting or accepting bribes.

The World Bank (Bank) and the International Monetary Fund (Fund) conduct two major activities with respect to anti-money laundering (AML)/counterterrorist financing (CTF). First, both institutions cooperate in the provision of technical assistance, and secondly, they cooperate on joint Financial Sector Assessment Programs of countries. The Financial Sector Assessment Program (FSAP) is a joint initiative of the Bank and the Fund that measures and analyzes the depth, development, diversity and durability of a financial system, and formulates ways to strengthen it. In October 2002, the Bank and the Fund launched a pilot program to assess countries' legal and institutional frameworks to fight money laundering and terrorist financing according to the FATF international standards. These assessments typically take place as part of the FSAP. The Bank and the Fund conducted 27 AML/CTF assessments from January to December 2003. The Bank was involved as a technical assistance provider in five of the 15 FATF/FATF-Style Regional Body (FSRB) mutual evaluations in 2003.

The Bank and Fund work closely with FATF and all FSRBs to help member countries build and improve AML/CTF Regimes. The Bank considers its participation in FSRB meetings particularly important in this regard. In the past year, the Bank, Fund, FATF and FSRBs worked together to devise and adopt a Global AML/CTF Methodology which is used worldwide by all organizations which conduct AML/CTF Assessments, to ensure that all assessments are conducted according to a uniform standard. This Methodology is currently being revised following the revision of the FATF Forty Recommendations in June 2003. The Bank and the Fund are working together with FATF on the revision process and working to ensure broader consultation with FSRBs. It is expected that the revision will be concluded by March 2004.

The Bank and the Fund have undertaken a number of steps to raise awareness of AML/CTF issues in member countries and are providing technical assistance to countries to strengthen AML/CTF regimes.

One of the more innovative AML/CTF training programs piloted by the World Bank was a training series delivered by the Global Distance Learning Network (GDLN). Such training programs are delivered over videoconference facilities, and a successful program series was designed specifically for four Central Asian countries and delivered between May and December 2003.

In addition to regional conferences, the Bank/Fund provides technical assistance to client countries in response to specific requests or following an AML/CTF assessment. Examples of such assistance include the

following: reviewing and advising about draft AML/CTF legislation or regulations, training officials and regulators involved in the development and enforcement of AML/CTF systems; and providing advice on the establishment of financial intelligence units. The Bank has also devoted resources to technical assistance projects of wider application such as the production of the first “Reference Guide to Anti-Money Laundering and Combating the Financing of Terrorism” and its translation into four languages besides English.

In August 2003, the Bank launched an external AML/CTF website (www.amlcft.org) which hosts information on the Bank’s programs, upcoming capacity building activities, resource materials, helpful links, and news and current events. The website is kept current with the latest publications, best practices and themes in this area, and provides contact information for individuals or organizations interested in learning more about AML/CTF.

The Bank and the Fund continue to look for new and innovative ways to provide AML/CTF technical assistance to countries which request it. In this regard, the Bank and Fund are seeking to partner with other organizations and donor countries to coordinate technical assistance efforts to meet the needs of countries that want to improve their AML/CTF regimes.

Asia/Pacific Group on Money Laundering

The Asia/Pacific Group on Money Laundering (APG) is comprised of 26 nations from South Asia, Southeast Asia, East Asia and the South Pacific. They include Australia, Bangladesh, Brunei Darussalam, Chinese Taipei, Cook Islands, Fiji Islands, Hong Kong China, India, Indonesia, Japan, Korea (Republic of), Macau China, Malaysia, Marshall Islands, Nepal, New Zealand, Niue, Pakistan, Palau, Philippines, Samoa, Singapore, Sri Lanka, Thailand, United States and Vanuatu. There are also 13 observer jurisdictions and 13 observer international and regional organizations in the APG.

The APG’s mission is to contribute to the global fight against money laundering, organized crime and terrorist financing in the Asia/Pacific region by enhancing anti-money laundering and antiterrorist financing efforts. In 2003, Australia and Korea served as co-chairs of the APG.

Caribbean Financial Action Task Force

The Caribbean Financial Action Task Force (CFATF) continues to advance its anti-money laundering initiatives within the Caribbean basin. In October 2003, El Salvador became a full member of the CFATF, increasing its membership to 30 jurisdictions. CFATF members include Anguilla, Antigua and Barbuda, Aruba, and Commonwealth of the Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Dominica, Dominican Republic, El Salvador, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands and Venezuela. In October 2003, Antigua and Barbuda assumed Chairmanship of the CFATF and the Egmont Group of Financial Intelligence Units was granted observer status to the CFATF.

Members of the CFATF subscribe to a Memorandum of Understanding (MOU) that delineates the CFATF’s mission, objectives, and membership requirements. All members are required to make a political commitment to adhere to and implement the FATF Forty Recommendations on Money Laundering, the FATF Eight Special Recommendations on Terrorist Financing and the CFATF’s additional 19 Recommendations, and to undergo peer review in the form of mutual evaluations to assess their level of

implementation of the recommendations. Members are also required to contribute to the CFATF budget and to participate in the activities of the body.

The CFATF has established an initiative to compile annual country reports on each member to assess compliance with the international anti-money laundering and counterterrorist financing standards. This project is intended to complement the mutual evaluation program and to enhance the CFATF's monitoring capacity. The first set of country reports has been drafted and is expected to be adopted and published in 2004.

In March 2003, the CFATF and the South American Financial Action Task Force (GAFISUD) conducted a joint two-day typologies exercise in Panama City, Panama, focused on terrorist financing and money laundering. During this exercise, 13 presenters from nine countries and one international organization shared expertise focused on detecting and combating terrorist financing and money laundering.

In October 2003, the Council of Ministers endorsed the revised 2003 FATF Forty Recommendations, FATF Interpretative Notes to Special Recommendations III and VI, and the FATF Best Practices Paper on Freezing Terrorist Assets. The Ministers further agreed that the 2003 FATF Forty Recommendations and the FATF Eight Special Recommendations on Terrorist Financing would serve as the benchmarks for the CFATF's third round of mutual evaluations.

Council of Europe (MONEYVAL)

MONEYVAL generally includes within its membership those Council of Europe member states that are not members of the FATF. MONEYVAL members include Albania, Andorra, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Macedonia, Malta, Moldova, Monaco, Poland, Romania, the Russian Federation, San Marino, Serbia and Montenegro, Slovakia, Slovenia and Ukraine. The terms of reference for the MONEYVAL Committee of the Council of Europe were amended in 2003 to permit the Russian Federation to continue its membership even after its accession to the FATF. MONEYVAL aims to encourage legal, financial and punitive measures among its members that are in line with international standards. To accomplish this, it relies on a system of mutual evaluations and peer pressure. MONEYVAL's mandate was most recently extended through the end of 2007.

Like the FATF, MONEYVAL has taken on additional responsibilities in the area of counterterrorist financing. In 2002, the Council's European Committee on Crime Problems revised MONEYVAL's terms of reference to specifically include the issue of financing terrorism. The current text recognizes the FATF Eight Special Recommendations on Terrorist Financing as international standards and authorizes the evaluation of the performance of MONEYVAL member states in complying with these standards. The Council's Multidisciplinary Group on International Action Against Terrorism has pointed to MONEYVAL's evaluation work as a priority for Council of Europe action. The Council of Europe's Parliamentary Assembly, in its Recommendation 1584, has similarly recognized the importance of MONEYVAL's monitoring and evaluation of all aspects connected with the financing of terrorism.

During 2004, in addition to its ongoing evaluation responsibilities, MONEYVAL will participate in the Committee of Experts on the revision of the Council of Europe Convention on Laundering, Search, Seizure and Confiscation of the Proceeds from Crime, more commonly known as the Strasbourg Convention. The feasibility of including preventive measures and counterterrorist financing in the Strasbourg Convention will be examined.

Eastern and Southern African Anti-Money Laundering Group

The Eastern and Southern African Anti-Money Laundering Group (ESAAMLG) was launched at a meeting of ministers and high-level representatives in Arusha, Tanzania, in August 1999 and held its first meeting in April 2000. The group maintains its Secretariat in Dar es Salaam, Tanzania. Its member countries are Kenya, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Botswana, Lesotho, Zambia and Zimbabwe. The United States, United Kingdom, Commonwealth Secretariat, United Nations and World Bank serve as cooperating nations and organizations.

In accordance with the ESAAMLG Work Plan for 2003/2004, the ESAAMLG anticipates undertaking the following initiatives in 2004:

- Completing a mutual evaluation training session at the end of January 2004 in Zambia (countries sending trainees are Botswana, Kenya, Lesotho, Malawi, Mauritius, Namibia, Tanzania, Uganda);
- Piloting a computer-based Modular Anti-Money Laundering Training Program developed by the UN Global Programme against Money Laundering in Zambia in February 2004;
- Completing mutual evaluations scheduled for Lesotho, Malawi and Namibia by the end of April 2004;
- Working with World Bank First Initiative to fund a workshop in South Africa in May 2004 to assist all ESAAMLG members in developing a strategy outlining how they will go forward on developing an AML/CTF program; and,
- Coordinating technical assistance to ESAAMLG members in developing and implementing AML/CTF strategies.

These initiatives will be reviewed and discussed at a meeting of the Task Force of Senior Officials in March 2004 and the annual Ministerial Meeting in August 2004.

Financial Action Task Force against Money Laundering in South America

The Memorandum of Understanding establishing the Financial Action Task Force Against Money Laundering in South America, (Grupo de Acción Financiera de Sudamerica Contra el Lavado de Activos or GAFISUD) was signed on December 8, 2000 by nine member states: Argentina, Bolivia, Brazil, Colombia, Chile, Ecuador, Peru, Paraguay and Uruguay. Mexico, Portugal, Spain, the United States, the Inter-American Development Bank, the International Monetary Fund, the United Nations Office for Drug Control and Crime Prevention, and the World Bank have joined GAFISUD as cooperating and supporting observer members (PACOS). In addition, the Organization of American States' Inter-American Drug Abuse Control Commission (OAS/CICAD) is a special advisory member. GAFISUD is committed to the adoption and implementation of the FATF Forty Recommendations on Money Laundering. GAFISUD's mission also includes member self-assessment and mutual evaluation programs. Headquarters and a permanent Secretariat have been officially established in Buenos Aires, Argentina, and Uruguay has offered a training center as a permanent training venue for GAFISUD.

At the July 2003 Plenary of GAFISUD, Venezuela was admitted as a new member, increasing GAFISUD membership to 10 governments. Argentina was elected to serve as President of GAFISUD in 2004, following Uruguay's Presidency in 2003. The Egmont Group of Financial Intelligence Units was admitted as an observer in December 2003.

Also at the July 2003 Plenary in Buenos Aires, GAFISUD finalized and adopted Mutual Evaluation Reports on Chile, Ecuador, Paraguay, and Peru. This concluded GAFISUD's first round of mutual evaluations. The second round of mutual evaluations is scheduled to begin in summer 2004. Additionally, GAFISUD has adopted an Action Plan to Counter Terrorism and has endorsed the FATF Eight Special Recommendations on Terrorist Financing. GAFISUD has also endorsed the common AML/CTF Methodology for assessing compliance with the FATF Recommendations.

Inter-Governmental Action Group against Money Laundering (GIABA)

The Heads of State and Government of the Economic Community of West African States (ECOWAS) established the Inter-Governmental Action Group against Money Laundering (GIABA) in December 1999. GIABA's first meeting was held in Dakar, Senegal, in November 2000. Members include: Benin, Burkina Faso, Cape Verde Islands, the Gambia, Ghana, Guinea, Guinea-Bissau, Ivory Coast, Liberia, Mauritania, Mali, Niger, Nigeria, Senegal and Togo. A Senegalese magistrate serves as the acting head of GIABA.

At the first meeting, GIABA endorsed the FATF Forty Recommendations on Money Laundering, recognized the FATF as an observer, and provided for self-assessment and mutual evaluation procedures to be carried out by GIABA. While the text prepared by the experts provided for a strong involvement of ECOWAS in the activities of GIABA, the Ministers agreed to give more autonomy to the new body.

Caribbean Anti-Money Laundering Programme

The U.S. Government, in partnership with the European Union and the UK Government, launched the Caribbean Anti-Money Laundering Programme (CALP) on March 1, 1999. The Programme is designed to assist the 21 Caribbean Basin member countries of CARIFORUM (the representative organization for Caribbean countries) to develop their anti-money laundering procedures.

The two primary objectives of CALP are:

- To reduce the incidence of the laundering of the proceeds of all serious crime by facilitating the prevention, investigation, and prosecution of money laundering and the seizure and forfeiture of property connected to such laundering activity.
- To develop a sustainable institutional capacity in the Caribbean region to address the issues related to anti-money laundering efforts at a local, regional and international level, by strengthening existing institutional capacity at the regional level, and developing new, or enhancing existing, institutional capacity at the local level.

The Egmont Group of Financial Intelligence Units

An important component of the international community's approach to combating money laundering is the global network of financial intelligence units (FIUs). An FIU is a centralized unit for financial intelligence, formed by a nation to protect its financial services sector, to detect criminal abuse of its financial system and to ensure adherence to its laws against financial crimes, terrorist financing, and money laundering. Since 1995, a number of FIUs have been working together in an informal organization known as the Egmont

Group. Since the first meeting, the number of established FIUs has grown dramatically. At the first Egmont Group meeting in 1995, 20 units met in Brussels; today there are 84 recognized members of the Egmont Group.

The Egmont Group is an international network designed to improve interaction among FIUs in the areas of communications, information sharing, and training coordination. The goal of the Egmont Group is to provide a forum for FIUs around the world to improve support to their respective governments in the fight against money laundering, terrorist financing and other financial crimes. This support includes expanding and systematizing the exchange of financial intelligence information, improving expertise and capabilities of personnel employed by such organizations, and fostering better and more secure communication among FIUs through the application of technology. The Egmont Group's secure Internet system permits members to communicate with one another via secure e-mail, requesting and sharing case information as well as posting and assessing information regarding trends, analytical tools and technological developments.

In response to the rapid growth of the Egmont Group, in 2002 at the Plenary in Monte Carlo, the group established the "Egmont Committee." The Committee addresses the administrative and operational issues facing the group and is comprised of 13 members: six permanent members and seven regional representatives based on continental groupings (i.e., Asia, Europe, the Americas, Africa and Oceania). The Egmont Committee usually meets three times a year; however, additional meetings may be organized if needed.

As of December 2003, the members of the Egmont Group are Albania, Andorra, Anguilla, Antigua and Barbuda, Argentina, Aruba, Australia, Austria, Bahamas, Bahrain, Barbados, Belgium, Bermuda, Bolivia, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, Colombia, Costa Rica, Croatia, Cyprus, Czech Republic, Denmark, Dominica, Dominican Republic, El Salvador, Estonia, Finland, France, Germany, Greece, Guatemala, Guernsey, Hong Kong, Hungary, Iceland, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Latvia, Lebanon, Liechtenstein, Lithuania, Luxembourg, Malaysia, Malta, Marshall Islands, Mauritius, Mexico, Monaco, Netherlands, Netherlands Antilles, New Zealand, Norway, Panama, Paraguay, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Africa, South Korea, Spain, St. Vincent & the Grenadines, Sweden, Switzerland, Taiwan, Thailand, Turkey, United Arab Emirates, United Kingdom, United States, Vanuatu and Venezuela.

Resources

- The consequences of money laundering and financial crime By John McDowell, Senior Policy Adviser, and Gary Novis, Program Analyst ,Bureau of International Narcotics and Law Enforcement Affairs ,U.S. Department of State
- Financial System Abuse, Financial Crime and Money Laundering—Background Paper Prepared by the Monetary and Exchange Affairs and Policy Development and Review Departments In Consultation with Legal and other Departments ,February 12, 2001
- International Narcotics Control Strategy Report -2003
Released by the Bureau for International Narcotics and Law Enforcement Affairs March 2004
- International standards and cooperation in the fight against money laundering ,By Joseph Myers, Acting Deputy Assistant Secretary, Enforcement Policy ,U.S. Department of the Treasury
- United States General Accounting Office (GAO)Report to Congressional Requesters :”
TERRORIST FINANCING U.S. Agencies Should Systematically Assess Terrorists’ Use of
Alternative Financing Mechanisms “November 2003