Anti-Money Laundering and Combating the Financing of Terrorism

Regional Videoconference: South Asia Region—Maldives, Pakistan, and Sri Lanka
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In recent years, and especially since the events of September 11, 2001, worldwide efforts to combat money laundering and the financing of terrorism have assumed heightened importance. Money laundering and the financing of terrorism are global problems that not only threaten security, but also compromise the stability, transparency, and efficiency of financial systems, thus undermining economic prosperity. James D. Wolfensohn, president of the World Bank Group, has declared that the global community should act “where it really matters”—and, economically, money laundering really matters. At least US$1 trillion is laundered annually using increasingly sophisticated methods of moving funds across borders.

The success of a criminal enterprise is based on its ability to sanitize its ill-gotten gains by moving them through lax or corrupt national financial systems. The laundering allows criminals and terrorists to operate freely, using their financial gains to expand their criminal pursuits and fostering illegal activities such as corruption, drug trafficking, arms trafficking, smuggling, and financing of terrorism.

Money laundering and the financing of terrorism can have devastating economic and social consequences for countries, especially those in the process of development and those with fragile financial systems.
The economy, society, and ultimately the security of countries used as money laundering platforms are all imperiled. Here are just a few examples of how illicit financial flows can affect the economy and institutions of the host country:

- Financial institutions that accept illegal funds cannot rely on those funds as a stable deposit base. Large amounts of laundered funds are likely to be suddenly wired out to other financial markets as part of the laundering process, threatening the institution’s liquidity and solvency. A financial institution’s reputation and integrity can be irreversibly harmed through involvement in laundering money or financing terrorism.

- Local merchants and businesses may find that they cannot compete with front companies organized to launder and conceal illicit funds. Many such front companies offer their services and goods at below-market rates and even at a loss. Because their primary objective is laundering money, they do not need to compete in the marketplace and make a profit for their owners.

- Money laundering may also distort some economic sectors and create instability in their markets. Money launderers may channel funds to sectors or areas where funds are unlikely to be discovered, whether or not investment is needed or real returns are offered. The often sudden departure of investments from those sectors may impair the industries involved.

- Currencies and interest rates can be distorted by money launderers’ investment practices, based as they are upon factors other than market returns.

- Money laundering and terrorist financing do nothing for the reputation of the host country. The loss of investor confidence that follows revelations of large-scale involvement in such activities can sharply diminish opportunities for growth. Once a country’s reputation is tarnished, it takes years to repair.

The global agenda to curb money laundering and the financing of terrorism calls for a cooperative approach among many different international bodies. Efforts to establish an international standard against both problems have been led by the 29-member Financial Action Task Force (FATF), which has come forth with its “40 + 8”
Recommendations—the original 40 in the area of money laundering, and now 8 more related to the financing of terrorism.

The boards of the World Bank and the International Monetary Fund have recognized these recommendations as the appropriate standard for combating money laundering and the financing of terrorism and have intensified their work in this area. Both institutions worked with the FATF to develop a comprehensive global methodology for assessing country compliance with the FATF’s international standards. They are also cooperating to provide training and technical assistance to client countries and to coordinate efforts with other international organizations, including the FATF, the FATF-style regional bodies, the United Nations, the Egmont Group of financial intelligence units, regional development banks, and other donors.

The videoconferences of the Global Dialogue Series, which bring international experts together with those charged with planning or administering national systems to curb money laundering, are an excellent example of collaborative international work in a critical area.

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The Sixth Videoconference in the Global Dialogue Series on Anti-Money Laundering and Combating the Financing of Terrorism

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“Anti-Money Laundering and Combating the Financing of Terrorism,” a World Bank Global Dialogue Series, was inaugurated in January 2002. Since then, policy dialogues have been held with countries in Europe and Central Asia, Latin America and the Caribbean, and Africa. The sixth and seventh dialogues in the series covered South Asia. This booklet summarizes the sixth policy dialogue. Held on October 23, 2002, it featured experts from Maldives, Pakistan, and Sri Lanka.

The Global Dialogue was a live videoconference conducted over the World Bank’s Global Distance Learning Network. Two hours in length, it involved more than 33 participants from client countries who represented monetary authorities, central banks, ministries of finance, ministries of justice, attorneys general, ministries of interior, ministries of foreign affairs, securities and exchange commissions, national accounting bureaus, ministries of policy and planning, and other institutions.

The event provided a unique opportunity for three South Asian countries, the World Bank, the International Monetary Fund, the Asia/Pacific Group on Money Laundering, and the Asian Development Bank to discuss the challenges they face in combating money laundering and the financing of terrorism. The participants learned about progress in each country and identified the type of assistance they
need to make further progress. Moreover, they recognized the para-
mount importance of framing and addressing the challenge of money
laundering within the broader context of improving governance and
combating corruption and fraud in the private financial and public sec-
tors. Efforts to fight money laundering and combat the financing of ter-
rorism cannot be effective in isolation from national and transnational
governance, or by merely adopting conventions and declarations.

These videoconferences set the stage for additional regional dialogues
that aim to expand the international knowledge base on money laun-
dering and terrorist financing. Important issues emerging from the dia-
logue and areas for future international assistance are summarized in
the report that follows.

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Welcome and Introduction
- Joseph Del Mar Pernia

The World Bank/IMF Response to Money Laundering and Terrorist Financing
- Marilou Jane D. Uy, Director, Financial Sector Operations and Policies, and Chair, Financial Sector Board, World Bank
- Richard Gordon, Senior Financial Sector Expert, Special Financial Supervisory Issues Division, Monetary and Exchange Affairs Department, International Monetary Fund

Governance in the Financial Sector—The Broader Context of Money Laundering and Terrorist Financing
- Daniel Kaufmann, Director, Global Governance and Regional Learning (LCR), World Bank Institute

Country Presentations—How Have Governments Responded?
- Abdul Ghafoor, General Manager, Maldives Monetary Authority
- Arif Ibrahim, Deputy Secretary, Finance Division, Ministry of Finance, Pakistan
- Dharani Wijayatilake, Secretary, Ministry of Justice, Law Reforms, and National Integration, Sri Lanka
The representatives from Maldives, Pakistan, and Sri Lanka were asked to address the following issues:

- What have been the country’s responses to money laundering and terrorist financing?
- What institutional arrangements have been made to detect, investigate, and prosecute suspicious transactions?
- What are the key challenges for the country in combating money laundering and terrorist financing?
- What types of assistance does the country need from international organizations to fight money laundering and terrorist financing?

The Urgency of Regional Collaboration—Practitioners’ Views of Implementation Challenges for Regulators

- Eliot Kennedy, Executive Officer, Secretariat, Asia/Pacific Group on Money Laundering
- Motoo Noguchi, Counsel, Office of the General Counsel, Asian Development Bank

Open Discussions on Challenges for Implementation

Wrap-up

- John McDowell, Lead Anti–Money Laundering Specialist, Financial Market Integrity Department, World Bank
Key Issues Raised in the Dialogue

John McDowell, Rapporteur

The dialogue provided an opportunity for the participating countries and organizations to inform the group of the status of their anti–money laundering regimes and efforts to combat the financing of terrorism. Participants raised the following issues, needs, and possibilities:

World Bank

- World Bank recognizes that money laundering and the financing of terrorism are problems of global concern
- Global cooperation is needed to address these threats and action must encompass financial sector supervision and regulation, good governance, judicial and legal reform, as well as effective law enforcement
- World Bank can assist countries in identifying their vulnerabilities in these areas, and help them in addressing the root causes of financial abuse by providing them with assistance to strengthen their economic, financial, governance and legal foundations
- World Bank will provide technical assistance, capacity building and training
- World Bank/IMF developed a comprehensive methodology to assess countries’ AML/CFT regimes as part of the joint Financial Sector Assessment Program, which was endorsed by World Bank and IMF Boards and FATF
• Initiative in coordinating technical assistance among donor countries, and international and regional organizations

IMF
• World Bank and IMF are working closely together and what was said by the World Bank applies to the IMF as well because it is a joint initiative
• A few words on the comprehensive methodology: IMF and World Bank staff and experts hired by them will be reviewing compliance with criteria having to do with preventive measures, for the financial sector and with laws as written in the criminal area, outside independent criminal law experts will be partners in this process and they will be assessing implementation of criminal justice matters in AML/CFT
• The assessment is a voluntary process but we look forward to all jurisdictions to participate in this process

World Bank Institute
• Understanding/Diagnosing main manifestations of misgovernance and corruption in the public and private sectors in the country is key for AML
• Addressing main sources of laundered funds is crucial
• Need to understand the types of financial transactions and intermediaries: the Bank vs. Non-Bank Money Laundering, and within non-banking, formal vs. informal institutions
• Money Laundering and Terrorism Financing: very complex link, important in some countries – terrorism activities can also be financed by profits from ‘legal’ activities
• AML rules, laws and regulations alone cannot solve all the challenges. Need to go beyond

Maldives
• The need for comprehensive revision of criminal laws to address the AML/CFT issues
• Assistance from multilateral and other international organizations in enacting and implementing a legal and regulatory framework on AML/CFT
• Establishing an FIU and providing training for FIU personnel
• Developing and carrying out an awareness program on money laundering and financial fraud

Pakistan
• AML/CFT legislation should not deter internal and external investment
• Developing a strong and effective AML/CFT legal framework
• The need to extend the AML/CFT regulation beyond banking and other prudentially regulated sectors
• Financial sector supervision capacity building
• Donor funding required to purchase more hardware for supervisory bodies
• Lack of cooperation from countries with strict banking rules in assisting the return of illicit funds

Sri Lanka
• Criminal use of technology and the need for training of responsible professionals in this regard
• Training for judicial and law enforcement officials
• Awareness raising on AML/CFT
• Bringing the informal sector to the economy
• Focusing attention only to reporting large scale transactions in order not to burden the private sector
• Providing amnesty for the capital returning to the country

Issues raised by other speakers

APG

• APG’s role: facilitate the adoption, implementation and enforcement of the internationally accepted FATF 40 Plus 8 recommendation; assist jurisdictions in the region to enact laws dealing with the proceeds of crime, mutual legal assistance, confiscation, forfeiture and extradition; and help set up systems for reporting and investigating suspicious transactions and establish financial intelligence units
• Enhance the collaborative efforts in coordinating and providing TA
• Sources and typologies of money laundering vary considerably throughout the region
Considerable variance of AML/CFT regimes across countries
Institutional capacity to implement anti-money laundering and anti-terrorist financing laws is inadequate in many countries in the region, making the provision of training and technical assistance critical
Need to keep up with and respond to changes in money laundering cleansing techniques including the apparently widespread use of alternative remittance and underground banking systems
Need to keep abreast of and provide input into the current review of the FATF 40 Recommendations

ADB
The economic research report findings on the negative effects of money laundering on economic development: money laundering undermines domestic capital formation, depletes its growth and diverts capital away from development
Money laundering is a matter to be considered in conjunction with wider context of financial governance issues, not of a single separate issue
The institutional capacity in the region is inadequate. Donor assistance in institutional capacity building is necessary

Wrap Up by John McDowell
Uneven levels of progress across countries towards creating an effective AML/CFT regimes
Assistance is necessary from countries that have progressed to countries at the beginning stage of building their AML/CFT regimes
Sequential approach to providing TA
Awareness raising among politicians, general public and the private sector
Legal framework assistance by the World Bank and IMF
FIU development and computer hardware and software for FIUs
Training for regulators, bankers, prosecutors and judges
Providing TA following a series of typology seminars and workshops
Information sharing and mutual legal assistance among countries
Each jurisdiction in weighing the cost and benefits of monitoring large cash transactions has to consider compliance with best international practices
Providing the amnesty for the capital is the decision of individual jurisdictions, but must be in compliance with international standards
Let me start by welcoming everyone to the first South Asia Regional Dialogue on combating money laundering and terrorist financing.

This is the sixth in a series of videoconferences. It comes at a time of increased international cooperation against money laundering. The World Bank and the IMF recognize that money laundering, if left unchecked, can undermine the integrity of any financial system. It presents a special danger for countries that are trying to enhance the capacity of their financial institutions. The South Asia Financial Sector Unit is therefore pleased that three countries from the region are participating in this dialogue.

The Maldives, Pakistan, and Sri Lanka have diverse experiences in fighting money laundering and terrorist financing. This can only serve to enrich our exchange of ideas. I understand, for example, that both Pakistan and Sri Lanka have prepared draft anti–money laundering legislation, while the Maldives is about to embark on this process.
Our aim today is to engage in a candid dialogue on the challenges countries face so that the assistance provided by the World Bank and its partner institutions will be appropriately targeted and effective.

I am particularly pleased with the list of speakers and participants—both here in Washington and in each of the participating countries. The list reflects a broad range of international and regional expertise to guide us as we strive to improve the global and regional financial systems. I hope this session serves as a starting point for an important discussion.

Joseph Del Mar Pernia is acting director for Finance and Private Sector Development in the World Bank’s South Asia Region. At the time of the dialogue he was lead financial sector specialist in the same department, where he led a team that provided financial and technical assistance to financial sector agencies and institutions in client countries. Mr. Del Mar Pernia has worked for the World Bank for 23 years. He previously served as adviser to the Central Bank of Jamaica and was an official of the Central Bank of the Philippines.

The World Bank/IMF Response to Money Laundering and Terrorist Financing

- Marilou Jane D. Uy, Director, Financial Sector Operations and Policies, and Chair, Financial Sector Board, World Bank

The World Bank recognizes that money laundering and the financing of terrorism are problems of global concern. They undermine financial stability and the integrity of financial systems; they can pose a serious threat to development. Global cooperation is needed to address these threats. Action must encompass financial sector supervision and regulation, good governance, judicial and legal reform, and effective law enforcement.

The principal contributions that the Bank can make are to assist countries in identifying their vulnerabilities and to help them address the root causes of financial abuse by providing them with assistance to strengthen their governance and its economic, financial, and legal foundations.

After the events of September 11, the Bank’s board directed Bank staff to intensify work in anti-money laundering and combating the financ-
ing of terrorism. One element of the response was to develop comprehensive assessments to address both money laundering and financing of terrorism, based on the recommendations of the Financial Action Task Force (FATF). The Bank—working with the IMF, the FATF, and other standard-setters (such as the Basel Committee)—has developed a comprehensive methodology to assess countries’ anti-money laundering regimes as part of the joint Financial Sector Assessment Program (FSAP).

On August 6, 2002, the Bank board endorsed adding money laundering and terrorism financing to the list of 11 areas where standards and codes are useful to the operational work of the World Bank, and agreed to adopt the FATF “40 + 8” Recommendations as the associated standard. The Bank board also endorsed two methods of preparing reports on observance of standards and codes, or ROSCs, related to money laundering and terrorism financing. Under this voluntary program staff of the World Bank and IMF will jointly analyze a country’s financial sector risks and development priorities in these areas. The results of the assessments will be summarized as ROSCs.

The comprehensive assessment methodology has been endorsed by the FATF, and will now be used in all relevant assessments conducted by the World Bank and IMF.

The assessment program will operate as a pilot for the next 12 months. Its presence will mean that money laundering issues will receive more attention in the Bank’s diagnostic work. Moreover, as the program identifies the gaps in financial system regulation and supervision, and as countries request assistance to address those gaps, the Bank will respond with technical assistance, capacity building, and training.

The board has clearly defined the Bank’s role in combating money laundering and terrorist financing. Consistent with its global development mandate, the Bank will help countries fight those threats by building their institutional capacity and strengthening their legal and institutional frameworks.

The post–September 11 action plan also aims to enhance the Bank’s capacity building assistance in this area. The Bank is now integrating the results of money laundering and terrorism financing assessments into country assistance strategies, particularly where weaknesses can pose a significant governance and development risk. The Bank is pro-
viding technical assistance to countries to draft laws and regulations on money laundering, to establish and strengthen financial intelligence units, and to strengthen supervision.

The Bank also established the Global Dialogue Series in which we are all participating today. Its purpose, of course, is to bring together leading experts and senior country officials for a constructive exchange of ideas.

Finally, the World Bank and the IMF have launched an initiative to improve the international coordination of technical assistance related to money laundering and the financing of terrorism. On April 22, the two institutions hosted a meeting in Washington to develop a coordination mechanism. Participants included the FATF, FATF-style regional bodies, the United Nations Global Programme on Money Laundering, the United Nations Counter Terrorism Committee, the regional development banks, including the ADB, and key providers of bilateral technical assistance. As part of this initiative, we are working closely with the FATF-style regional bodies, such as the Asia/Pacific Group on Money Laundering, to help them coordinate and meet the technical assistance needs in their region.

Let me conclude by reiterating that the Bank stands ready to assist countries that seek to strengthen their regimes for fighting money laundering and the financing of terrorism.

Marilou Uy is director of the Operations Policy Department of the Financial Sector Network and chair of the Financial Sector Board. Previously, she was sector director for Finance and Private Sector Development in South Asia. She joined the Bank through the Young Professionals Program in 1985, and worked in various regions including Latin America, Europe and the Middle East, and South Asia. Career highlights include financial research in the Development Economics Department and work on preparing the Bank’s publication on the East Asian miracle. Ms. Uy also worked for a number of years in the Bank’s Financial Policy and Country Creditworthiness Department.

Richard Gordon, Senior Financial Sector Expert, Special Financial Supervisory Issues Division, International Monetary Fund

I would like to follow up on Marilou Uy’s presentation by commenting on the assessment methodology adopted by the FATF. That methodolo-
gy—created in large part by staff from the Bank and the Fund—will be used in Financial Sector Assessment Programs (FSAPs) and perhaps in stand-alone anti-money laundering assessments. We hope it will be used as well in the mutual evaluations carried out by the Asia/Pacific Group on Money Laundering (APG) if the APG decides to join the pilot Bank/Fund assessment program on anti-money laundering and combating the financing of terrorism (AML/CFT). We hope that APG and the other FATF style regional bodies will make the decision to participate in the pilot at their plenary meetings in the coming year.

This comprehensive methodology not only reviews preventive measures in the financial sector, but also includes criteria for criminal laws and law enforcement. Fund staff, Bank staff, and experts hired by them will be reviewing countries’ compliance with criteria for preventive measures in the financial sector and also with national legislation in the criminal area. Independent criminal law experts will be partners in this process, assessing implementation of criminal justice provisions related to money laundering and terrorism financing.

We hope that the use of this comprehensive methodology will create an effective, worldwide standard for determining a particular jurisdiction’s compliance with the FATF 40 + 8, and for diagnosing its needs. We look forward to all jurisdictions—including yours—participating in this voluntary but very important process.

Richard Gordon is senior financial systems expert in the IMF’s Special Financial Supervisory Issues Division. In this position and earlier as senior counsel in the Fund’s legal department, Mr. Gordon has been deeply involved in the evolution of the IMF’s fight against money laundering and terrorist financing.

Before joining the IMF in 1994, Mr. Gordon taught international and comparative taxation at the Harvard Law School and served as deputy director of the Harvard International Tax Program, a joint program in taxation and development sponsored by the Law School and the Kennedy School of Government. In 2000, Mr. Gordon was a distinguished visiting professor of International Law at Case Western University Law School. Mr. Gordon has published widely on taxation, law, and development. He holds a BA from Yale and a JD from Harvard.
Governance in the Financial Sector: The Broader Context of Money Laundering and Terrorist Financing

- Daniel Kaufmann, Director, Global Governance and Regional Learning (LCR), World Bank Institute

Even though substantial amounts of work have been done in the money laundering field, the focus until recently has been on particular banking institutions and a few countries. Since last September 11, however, the work has broadened to become a global concern. Many challenges and issues are still being debated.

Yet the challenge of money laundering is still viewed within a rather narrow context, one that still tends to focus narrowly on the banking system, and divorced from the links of poor governance and corruption in the public and private sectors. Here we suggest that it is important to approach the diagnostic, analysis and actions in the Anti-Money Laundering (AML) challenge within a much broader governance context. To provide a brief synthesis of key aspects and linkages within such broader governance framework, we present the “laundromat” AML chart below (and in slide 2 of the attached presentation).

The rows in the chart illustrate stages in the developmental and governance framework. The first row (stage 1) refers to the various types of activity and sources of profits and funds, which may be legal or illegal. The funds may or may not be channeled though money laundering transactions. The second row (stage 2) refers to the types of financial transactions and intermediaries. The third row (stage 3) shows the uses to which funds are put. The last row (stage 4) indicates the ultimate impact of the activity—does it favor development or discourage it?

A key hypothesis here is that concerted action must be based on a good understanding of the fundamental causes and sources behind money laundering. The illegal and extralegal activities that generate funds for laundering (stage 1 on the chart) vary from country to country and from region to region. The oval on the left represents the legal side; the rest of the ovals (those on the right) are types of illegal activity that include insider trading in the stock market, transfer pricing through multinationals, drug trafficking, arms trade, corruption in procurement, and corruption in government and in the political classes. The relative importance of these sources vary from country to country. It is therefore paramount to diagnose within a country what the main
sources for funds to be laundered are, and within it, to study the various links between money laundering and different manifestations of misgovernance and corruption in the public and private sectors. This is particularly important since significant progress on AML may derive from preventive activities that reduce the illegal source of the funds intended to be laundered in the first place.

The second row (stage 2) of the schematic chart illustrates the types of financial institutions that may be involved in money laundering activities. First, we note the distinction between banks and other formal financial institutions. While the bulk of money laundering in many countries still tend to use as a conduit the formal banking system, money laundering through non-banking financial institutions (NBFIs) appears to be growing in importance—through real estate transactions, security brokers, derivatives, the exchange rate market, leasing insurance companies, and others.

Yet transactions through non-banking financial institutions in the formal financial sector is not the only alternative conduit mechanism to the banking system. In fact in many countries informal financial institutions, such as the through hawalas and other such informal financial institutions, play a very important role. As the focus on enforcement, supervision, and institutional development in the formal banking (and non-banking) takes place, it is important to consider that there are substitutes to the formal financial institutions for money laundering. Such substitutes vary from country to country as well, and need to be addressed in tandem with the more conventional approaches being taken for tighter supervision and enforcement of the banking sector.

Laundered money can be put to many uses (stage 3 in row 3 in the schematic chart)—among them one possible use, in some settings, is terrorist activity. Yet terrorist financing can also be generated by quasi-legal activities, from state-sponsorship, and from contributions from individuals that may or may not involve laundering ill-gotten funds in the first place. Conversely, the bulk of laundered funds is not utilized for terrorist financing. In many cases, the funds and profits from money laundering can have significant political and developmental costs through their relationship to legal, political, and campaign financing, luxury consumption, and other criminal activities. By contrast, when financial activity is legal it is quite likely to contribute to growth and development.
Part of the challenge in not being able to probe in more analytical depth on money laundering worldwide was due to the lack of empirical evidence on the problem. In part, this is being addressed through surveys that probe into this issue. Slide 3 in the attached presentation depict the regional averages of money laundering and terrorism based on 2002 surveys of enterprises in 80 countries. The chart measures the reported costs of terrorist threats to businesses. It also shows money laundering through the banking system and through the non-banking system. We see that there are very significant variations across regions, both in the average levels and in the relative importance of each dimension of the problem of money laundering through banks vs. non-banks, and relative to the cost of the perceived terrorist threat as reported by the enterprise sector. In particular, it is noteworthy the reported differences in the relative importance of money laundering through the banking system as compared with the non-banking system. In some regions money laundering through the nonbanking system is reported to be much more significant, while in others the challenges are similar in both dimensions (slide 3). These are merely regional averages; the differences within specific countries can be even more pronounced.

The rest of the slide presentation suggests the empirical links between money laundering and a few related variables – depicted as dotgrams, where each ‘dot’ in the graphs representing the average rating for one of the 80 countries in the sample, as reported by the enterprises. We see for instance that money laundering through the banking system is closely related to the standards of accounting and auditing in the private and financial sectors, and with the quality of the overall regulatory and supervisory framework. As important, however, is the nexus between money laundering and the diversion (or ‘leakages’) of public funds from the national budget, as well as with other forms of corruption – including one particularly nefarious form of ‘grand corruption’, namely state capture, which refers to the tendency of elite firms and interests (including oligarchs) to shape the laws, regulations and policies of the state for their private interest through illicit payments to politicians.

This evidence illustrates the point that it is counterproductive to divorce the issues of public and private sector misgovernance from the problem of money laundering. The evidence presented in the presentational slides also suggest how complex the link between money laundering and terrorist threat is: there is no one-to-one link between
money laundering and the reported terrorist threat. There is a positive correlation among the 80 countries in the sample between these two variables, yet it is a far lower correlation than for the corruption, state capture, and financial supervision and audit variables suggested above. Again, studying the country-specific reality appears to be of particular importance in this context as well, since the evidence is suggestive in that such link between money laundering and terrorism may be relevant in some countries more than in others.

The following key implications emerge from this presentation and the preliminary evidence depicted in the slide presentation:

- It is crucial to understand and diagnose the main manifestations of misgovernance and corruption in both the public and private sector in order to be able to develop an effective, comprehensive national program to fight money laundering. Country specificity is key.

- It is very important to diagnose what the main sources of laundered funds are. They will vary significantly from country to country—drug trade, drug cartels, arms trade, the political arena, political funding, grand scale procurement, budgetary corruption, tax evasion, insider trading. Understanding the key sources is an absolute priority.

- We must distinguish and understand the differences between money laundering through the official banking system and through the non-banking system, both official and informal. The informal institutions play a very important role in some countries.

- A deeper understanding of the not-so-simple relationships between money laundering and terrorism financing is needed. It is very important in some countries; not as important in others. There are other crucial complexities. Terrorist activities can be financed by profits from so-called legal activities, and not just from illegal and laundered funds. To stop terrorism funding one has to go beyond merely looking at money laundering.

- We must move beyond narrow money laundering rules, laws, and regulations. Surely we will hear today how many new regulations are being passed in this area. Those are important, but on their own they are not going to make most of the difference. Politically, we have to tackle money laundering and terrorism financing as
part of a commitment to improve governance in general and fight corruption within the public, private, and financial sectors.

- Finally, on the power of data: being informed through empirical evidence is a major challenge, which will continue to assist in addressing myths and misconceptions in this field, in monitoring progress in this area, as well as in prioritizing measures and actions, and placing AML within a rigorous and more comprehensive governance context. In this respect, further gathering of worldwide information on this issue through surveys and other such diagnostic methods if of importance, as is the utilization of simple tools based on economic empiricism. For instance, an estimate of the ‘cut’ that had to be given to intermediaries to implement laundering of funds in the United States in the eighties was in the order of about a 6% fee; while nowadays such estimate exceeds 25%. The extent of the increase in this fee is a simple, powerful, and telling indicator of how much more costly it has become to launder funds (at least in the US), and thus it constitutes one monitoring indicator of progress.

In addition to his role as director for global governance, Daniel Kaufmann directs WBI’s capacity building and learning efforts in Latin America and the Caribbean. A leading expert in the field of governance, he has pioneered new empirical and survey methodologies with colleagues at the World Bank. Dr. Kaufmann’s team supports countries that request good governance and anticorruption assistance in their efforts to improve governance through a rigorous empirical, systemic, and strategy-driven approach. He frequently advises leaders, governments and civil society.

Before joining WBI in 1998 as manager, Dr. Kaufmann was lead economist in the Development Economics Group and chief of mission in Ukraine. He was a member of the team that produced the 1991 World Development Report on distilling the key lessons from development experience.

Dr. Kaufmann has published extensively on issues of economic development, privatization, governance, the unofficial economy, industrial and trade restructuring, corruption, transparency, and urban and labor economics. A Chilean national, he received his master’s and doctoral degrees in economics from Harvard University, where he was a visiting scholar. He holds a BS degree in economics and statistics from the Hebrew University of Jerusalem.
Country Presentations—How Have Governments Responded?

• **Abdul Ghafoor**, General Manager, Maldives Monetary Authority

The Maldives consists of 1,190 coral islands stretched out over an area of 832 kilometers. Two hundred of these islands are inhabited. The population of the Maldives is about 270,000, of whom 70,000 live in the capital, Male.

The main economic activities are tourism and fishing. The nation is highly dependent on tourism; the industry is its main source of revenue. As a result, Maldives did not escape the impact of the terrorist attack on the United States on September 11, 2001. This impact on a small nation such as Maldives illustrates that nations around the globe are all at risk, directly or indirectly, from terrorist activities.

The financial sector of the Maldives is rather small. It is not considered a money laundering center or an important financial center in the region. However, in view of the global effects of terrorism, the government of Maldives accepts the need to take national measures to comply with international schemes to combat money laundering and fight terrorist financing activities. Then again, the limited financial resources and technical capacity of the Maldives restrains its ability to develop the necessary legislation and adopt international practices to combat money laundering and terrorist financing.
Response to Money Laundering and Terrorist Financing

United Nations Security Council Resolution 1373, passed subsequent to the September 11 attack, calls on states to scrutinize and adopt certain actions and to participate in regional and international efforts to combat terrorism. One of the principal requirements is that each state sign and implement the 12 United Nations conventions dealing with various aspects of terrorism. The Maldives has ratified the majority of the conventions relating to terrorism.

The Ministry of Foreign Affairs is studying the “International Convention for the Suppression of the Financing of Terrorism” with the intention of ratifying it in the near future along with the relevant conventions on the drug trade and related activities.

Since September 11, 2001, the Maldivian authorities have received several freeze orders and other subsequent instructions from the U.S. government. In support of these instructions the Maldives Monetary Authority (MMA) has directed the banks to know the identity of their customers. The directives also cover instructions received from the United Nations (resolutions passed) and the IMF following the September 11 attack. MMA circulars are binding on the banks and other financial institutions. As part of its mandate, the Credit and Bank Supervision Section of MMA has been assigned to monitor daily financial transactions and to report to management any suspicious financial transactions. To date, there have been no known cases of such activity through the banking system in the Maldives. It is important to note that the four foreign banks operating in the country follow the guidelines set by their parent organizations in this regard.

The government of Maldives has given a blanket approval to develop an anti-money laundering law and to establish a financial intelligence unit. The MMA, which will conduct the work, is seeking technical assistance from the U.S. government, the IMF, and the World Bank. In further support of these goals a team of delegates—including senior officials from the Law Commission, the Attorney General’s office, and MMA—attended the conference on “Building the Legal Infrastructure to Counter Terrorism” held in Washington, D.C., in September 2002.

Maldives enacted the Law on Prevention of Terrorism in the Maldives in 1990, making it a crime to commit certain enumerated acts considered terrorist acts.
A seminar on money laundering and debt recovery, organized jointly by the MMA, the Attorney General’s office, and the South Asian Association for Regional Cooperation (SAARC), was hosted in June 2002 for both government and private sectors. This forum disseminated information among local stakeholders in the financial sector and regional experts in the area.

Maldives is a member of several regional and international organizations. Through this network, early warnings and information exchange are carried out under the provisions of United Nations resolution 1373.

Maldives has observed a number of forums and seminars on fighting money laundering and illegal financial transactions.

Maldives Customs has tightened their investigation procedures on imports and exports after September 11. Maldives Customs has been a member of the World Customs Organization since 1995 and shares information on criminal activities through the Asia Pacific Regional Intelligence Liaison Office. This office helps customs authorities monitor activities within their mandate. Maldives Customs established a Security Surveillance Intelligence Unit in 1997 to assess information obtained from international and national sources and to carry out further investigations.

Institutional Arrangements to Detect, Investigate, and Prosecute Suspicious Transactions

The narrow financial sector in the Maldives is dominated by the banking sector, which consists of one locally owned commercial bank—the Bank of Maldives—and branches of four foreign-owned commercial banks: State Bank of India, Habib Bank Limited, Bank of Ceylon, and Hong Kong Shanghai Banking Corporation.

The country’s nonbank financial sector consists of two insurance companies, a provident fund, and a finance and leasing company. All financial institutions currently operate under the supervision of the Maldives Monetary Authority. There is no capital market in Maldives, although work is underway to establish a stock exchange and a functioning market for capital required by the economy.

The MMA is the regulatory authority for the financial sector. It supervises the banking sector to discourage, prevent, and detect money
laundering and terrorist financing activities through the country’s banking system. In the absence of specific laws and regulations to criminalize such activities, the MMA pays particular attention to large and unusual inflows of funds—both direct deposits and telegraphic transfers—from unknown and unusual sources.

MMA monitors compliance and collects financial information on suspected or actual criminal activities before they are referred to the Ministry of Defense, national security services, and the police for investigation and enforcement.

**Key Challenges in Combating Money Laundering and Terrorist Financing**

The Maldives currently has no specific laws on money laundering or the financing of terrorism. However, general laws and regulations address criminal activities of this nature. Activities generating funds that require laundering are offences. Legitimizing ill-gotten funds through the banking system is not allowed. Terrorist activities and the provision of financial and other support for terrorist activities are also under very strict surveillance.

To make existing laws more effective the Maldives is in the initial stages of a comprehensive revision of the criminal law, to include revision of the penal code, creation of a code of criminal procedures, and codification of the rules of evidence. To strengthen and speed up the necessary developments required in the legal structure, the government has established a law commission, one that has met on a regular basis since 1995.

**Needs for Technical Assistance**

With technical assistance from the World Bank and other multinational organizations the Maldives could fully adopt and comply with international best practices to counter money laundering and terrorist financing. The effort would require identifying the reforms and procedures to be adopted and reviewing the country’s existing legal framework. Only with a detailed study of the existing legal framework and with appropriate revisions could one enact in the Maldivian jurisdiction the model legislation of the United Nations or the Commonwealth.
The 1990 law on the prevention of terrorism in the Maldives also needs to be revised.

The Maldives needs assistance to create a national financial intelligence unit. Assistance would be required in both organizing and training the staff of the unit. Further, assistance is required to strengthen the existing national Financial Crimes Investigation Unit established within the investigation division of the police headquarters.

It is also important to conduct awareness programs on the subjects of money laundering and financial fraud. These would include a series of workshops and seminars. The awareness program should individually target the public and private sectors.

**Abdul Ghafoor** is general manager of the Maldives Monetary Authority, where he oversees the authority’s personnel, public relations, and expenditure section as well as the capital market development section. Mr. Ghafoor advises the governor and the executive director on policy decisions in accordance with relevant rules and regulations.

Previously Mr. Ghafoor was senior project officer for the Department of Tourism and Foreign Investment, responsible for the supervision of foreign investment in fisheries projects and tourism management.

Mr. Ghafoor is a graduate of Griffith University, Brisbane, Queensland, Australia, where he obtained a master’s degree in business administration. He has attended training courses and seminars sponsored by the IMF, the Japan International Corporation Agency, the central bank of Sri Lanka, and the Nepal Rastra Bank in Katmandu.

• **Arif Ibrahim**, Deputy Secretary, Finance Division, Ministry of Finance, Pakistan

The global problem of illegal financial transactions has serious ramifications for the integrity of financial systems. Such transactions affect the health of financial and capital markets and domestic economies. Nations bear billions of dollars in social, political and economic costs. There are various formal and informal channels and methods of global money laundering—wire transfers of funds through international banking channels, overseas smuggling of currency across national borders, remittance through nonbanking channels or hawala, and the use of bearer instruments, prize bond schemes, and money changers.

Until recently, the Government of Pakistan relied on legal and administrative measures developed by institutions concerned with countering money laundering and forfeiting assets acquired through drug traffick-
Prudential regulations issued by the State Bank of Pakistan (SBP) to prevent the use of banking channels for unlawful trade provide for setting up internal audit systems in the banks and Development Finance Institutions (DFIs), establishing effective measures for testing and checking compliance with banks’ policies and procedures, and offering suitable training.

The Protection of Economic Reforms Act of 1992 is designed to attract foreign exchange into Pakistan’s banking system and encourage repatriation of foreign exchange assets to Pakistani banks. The law also protects the sources of foreign accounts against questioning by tax authorities. However, law enforcement agencies can investigate the source of these accounts.

The Control of Narcotic Substances Act of 1977 and the Prevention of Smuggling Act of 1997 provide effective procedures for freezing and forfeiting assets acquired through smuggling, including narcotics trafficking. The laws are applicable to assets held in Pakistan or abroad acquired before or after their promulgation.

The prudential regulations set up procedures to identify customers before entering into business relations. Under the law, institutions are required to report to narcotics authorities suspicious transactions relating to drugs. These prudential regulations extend to Banks and DFIs. Investigations are to be conducted by several agencies.

To increase coordination, a working group has been mandated to propose anti-money laundering measures and a draft law on the criminalization of money laundering and confiscation of properties acquired from its proceeds. The working group held several meetings, and studied model laws in Malaysia, India, United Kingdom, and Switzerland. However, the Financial Action Task Force’s 40 + 8 Recommendations remained the main guides for drafting the legislation since they set the international norms for any anti-money laundering program.

The working group, after detailed deliberation, has developed a concept paper that will form the basis for an anti-money laundering law for Pakistan. Some of the highlights of the conceptual framework are:

- Money laundering is broadly defined and would be made a predicate offense with strong deterrence.
The National Accountability Bureau (NAB), Federal Investment Agency (FIA), and Anti-Narcotics Force (ANF) are the proposed agencies authorized to investigate crimes. The attorney general, SBP governor, and the Securities and Exchange Commission of Pakistan (SECP) chairman would have significant responsibilities under the law.

A Financial Intelligence Bureau (FIB) would be established as an independent decision-making authority. It would act as a buffer between financial institutions and the police during investigations and will represent Pakistan at the international level.

The SBP governor and SECP chairman would be required to file a report if a customer account appears to harbor proceeds of crime.

All financial institutions would be required to report suspicious activities on the part of their customers and to file reports when accounts appear to contain proceeds of crime.

The paper includes the concept of property seizure by the authorities—including property located outside Pakistan. The court would be able to authorize the interlocutory sale of property prior to the entry of a final forfeiture judgment. The law would also permit cooperation in international forfeiture proceedings.

The paper endorses international cooperation to combat money laundering.

The translation of this concept paper into a draft law is at a very advanced stage. Moreover, the Interior Ministry has been entrusted with making the issue of terrorist financing a part of the Anti-Terrorist Act of 1997.

Arif Ibrahim has been deputy secretary of the Finance Division of Pakistan’s Ministry of Finance since August 2001. He works on banking policy and privatization as well as financial sector reforms under World Bank projects. Previously he was deputy secretary of investment (February to August 2001), and section officer for internal finance (October 1999 to February 2001) in the Ministry of Finance. From March 1997 to October 1999, he served in the prime minister’s office as director of political analysis, where he dealt with public grievances relating to development activities in North West Frontier Province and Central Punjab. Before joining the prime minister’s staff, Mr. Arif served as section officer in the investment wing of the Finance Division in the Ministry of Finance and worked for the Ministry of Food and Agriculture.

Mr. Arif holds a bachelor’s degree in arts and engineering. He has received training on banking fragility in emerging economies and attended seminars on poverty alleviation,
private sector pension reforms, and investment in capital markets. He also attended the common training program at Pakistan’s civil services academy, and a specialized training program in Islamabad.

• **Dharani Wijayatilake**, Secretary, Ministry of Justice, Law Reforms, and National Integration, Sri Lanka

Sri Lanka, in its commitment to establishing an efficient anti–money laundering regime, has embarked on several initiatives. Sri Lanka is conscious of the ever-increasing need to deal with the problem, the dimensions of which are becoming increasingly alarming. Sri Lanka is also conscious of the need for a greater focus consequent to the threat of global terror groups undermining democratic institutions using wealth acquired via the parallel economy.

Sri Lanka believes positively in controlling the menace of money laundering. Toward this end several initiatives have been taken:

• A draft law to establish a comprehensive anti–money laundering regime is currently being prepared.

• Sri Lankan bribery and corruption legislation already provides for forfeiture of properties acquired through bribery.

• A new poisons and dangerous drugs bill currently under preparation includes a comprehensive chapter to prevent the laundering of money acquired through drug offenses.

• The Palermo Convention and both of its protocols have been signed. Legislation to deal with Transnational Organized Crime is being prepared.

• A new organized crime bill provides for the forfeiture of property acquired through crime.

• A cyber crime bill—now finalized—provides for criminalization of the use of modern technology in the perpetration of crimes. This will greatly enhance the legislative regime for tracking down launderers who make extensive use of advances in technology.

• The Mutual Assistance in Criminal Matters Act of 2002 was passed in Parliament on August 15, 2002. The law is based primari-
ly on the Commonwealth model and provides for a comprehensive regime to offer and obtain assistance from other jurisdictions with regard to search, seizure, tracing of proceeds of crime, and enforcement of court orders.

The anti–money laundering draft bill is currently being finalized and will shortly be submitted for government approval. Based on the Commonwealth model, it provides for:

• Comprehensive coverage of predicate offenses such as drugs, terrorism, bribery, and corruption; the use of firearms, explosives, and offensive weapons; organized crime, cyber crime, human trafficking, sexual abuse of children (including pornography), and human smuggling.

• An expanded definition of financial institutions to include a wider range of activities.

• Introduction of corporate controls compatible with the FATF Recommendations. Even at present instructions issued by the central bank seek to give effect to controls administratively.

• Treating the offense of laundering as a derivative offence. No predicate offences are recognized in this bill. A resolution is to be introduced under which monies that cannot be accounted for would be deemed to be derived from unlawful activities.


Sri Lanka is party to the international convention for the suppression of the financing of terrorism.

The Central Bank has issued circular instructions to all licensed commercial banks and licensed specialized banks giving guidelines on the use of customer due-diligence procedures. The objective is to prevent the unchecked use of the financial system for money laundering and transactions related to terrorism or subversive activities.

Sri Lanka is introducing legislation to establish a single nonbank financial regulatory authority. This institution may be empowered to oversee anti–money laundering measures.
The controller of exchange has issued instructions to all financial institutions regarding Regulation 1/2001 which was issued by the Minister of Foreign Affairs pursuant to a U.N. security council resolution. Under the regulation all commercial banks are prohibited to enter into any transactions with groups who have connections with terrorist or subversive activities.

Key challenges in combating money laundering and terrorist financing include:

- Enhancing the efficiency of monitoring and investigative roles.

- Keeping abreast of ruses used by criminals. Their methods are sophisticated and investigators always seem to be one step behind.

- Training investigators.

- Creating awareness of anti-money laundering developments and international endeavors.

Dharani Wijayatilake is the secretary of Sri Lanka’s Ministry of Justice, Law Reform, and National Integration. Previously she was secretary in the Ministry of Justice and Constitutional Affairs. She also acted as secretary in the Ministry of Legal and Prisons Reform and the Ministry of State for Justice. Prior to her secretarial duties she was a legal assistant in the Sri Lankan Supreme Court.

Mrs. Wijayatilake is president and founding member of SAARCLAW, the association of persons in the legal communities of the South Asian Association for Regional Cooperation. She is a graduate of the Sri Lanka Law College, where she earned an LLB degree.
The Urgency of Regional Collaboration

• **Eliot Kennedy**, Executive Officer, Secretariat, Asia/Pacific Group on Money Laundering

Officially established in February 1997, the Asia/Pacific Group on Money Laundering (APG) is the culmination of a process of awareness-raising in the region initiated by the Financial Action Task Force (FATF). The APG is part of the global network of anti-money laundering and anti–terrorist financing bodies led by the FATF. Its purpose is to facilitate the adoption, implementation and enforcement of the internationally accepted stance against money laundering and terrorist financing stance expressed in the FATF 40 + 8 Recommendations. The APG’s role includes assisting jurisdictions in the region to enact laws dealing with the proceeds of crime, mutual legal assistance, confiscation, forfeiture, and extradition. It also provides guidance in setting up systems for reporting and investigating suspicious transactions and helping in the establishment of financial intelligence units.

Membership of the APG has now expanded to 25 members, including Pakistan and Sri Lanka. We have 15 observer jurisdictions including the Maldives, and 13 international and regional observer organizations including the World Bank, the IMF, and the Asian Development Bank (ADB).
To highlight some of the major challenges facing us in the Asia/Pacific Region, I draw your attention to three findings of an ADB report on regional technical assistance. First, the sources and types of money laundering vary considerably throughout the region. Second, countries vary widely in their anti-money laundering and anti-terrorist financing regimes. Third, institutional capacity to implement anti-money laundering and anti-terrorist financing laws is inadequate in many countries in the region, making training and technical assistance critical.

Another major challenge in this region is the threat of terrorism. I speak to you today less than two weeks after the bombing in Bali which is likely to have killed close to 200 people, most of them Australian. While the culprits are yet to be identified, this terrible event can only be described as an act of terror. This act—only the most serious of several recent incidents in our region—brings home in a dramatic and tragic way the importance of introducing effective anti-terrorist financing and anti-money laundering measures at the national level.

Some of the other challenges for the region include:

- Keeping up with and responding to changes in money laundering techniques, including the apparently widespread use of alternative remittance and underground banking systems.

- Keeping abreast of and providing input into the current review of the FATF 40 Recommendations—a large and important task.

- Assessing how well the countries in the region are meeting the international standards and helping them to determine what steps need to be taken to better meet those standards.

What are the APG and its members doing to meet these challenges? The APG’s strategic plan contains seven goals, along with underlying strategies designed to help its members fight money laundering and terrorist financing. Today I will focus on the issue of technical assistance and training.

The APG’s goal is to facilitate and coordinate the provision of technical assistance and training to help jurisdictions in the region implement comprehensive anti-money laundering measures. The pressure to comply with international standards is becoming very real for some
APG members and observers and has intensified the demand for technical assistance and training across the region. The pressure is most noticeable in the FATF’s process for identifying “noncooperative countries and territories.” The demand for assistance is likely to increase with the recent focus on terrorist financing.

The role of the APG secretariat in coordinating a technical assistance and training program on behalf of APG members was endorsed at a meeting of anti–money laundering bodies and various donor and provider organizations this past April in Washington, D.C. After that meeting the APG secretariat decided that the best way to coordinate increasing demand with effective delivery of assistance would be to convene a forum as part of the APG’s annual meeting.

The forum was held in Brisbane on June 6, 2002, and was attended by 28 APG member and observer jurisdictions and nine international and regional organizations. Following the special forum, the APG secretariat compiled and distributed a matrix of the technical assistance and training needs of individual APG members and observers.

This matrix is based on the secretariat’s view that, wherever possible, needs for technical assistance and training should be identified in a logical and sequential way. Bear in mind that there are diverse needs in the region and that some jurisdictions have already taken very significant action. Some technical assistance and training has already been provided and more is planned from a variety of donors.

It is not the intention of the proposed sequential approach to interfere with that assistance but rather to avoid duplication and to enhance collaborative efforts. Current documents defining training needs are only preliminary and in parts very sketchy. APG would welcome participants’ comments on these documents and on the general approach we have taken.

APG encourages member and observer jurisdictions to establish national interagency coordination mechanisms to consider requests for technical assistance from within their country and to provide a liaison network within the region. One of the benefits will be to improve the confidence of donor organizations that technical assistance requests have the support of the relevant agencies at the local level. We hope this will prevent duplicate requests and requests that are out of sequence with the development of local systems and measures.
The matrix has also been circulated to donors and providers to assist as a planning tool. The secretariat has been in touch with donors and providers concerning the most effective way to coordinate and collaborate. Further consultation with jurisdictions will be needed to more accurately identify their needs and determine the best way of delivering assistance. We look forward to your active cooperation in this process.

Eliot Kennedy is executive officer of the Asia/Pacific Group on Money Laundering secretariat. He joined the secretariat in March 2001.

Mr. Kennedy has been an Australian public servant since 1984. He previously worked for Australia’s National Crime Authority (NCA) from 1985 to 1993, occupying positions in the operations and policy areas, as well as working as executive adviser to the former chairman of the NCA and former president of the Financial Action Task Force on Money Laundering (FATF). He also helped prepare the NCA’s 1991 report on money laundering, Taken to the Cleaners.

Before assuming his present position, Mr. Kennedy was deputy registrar of the Refugee Review Tribunal, an independent body established by the Commonwealth Government of Australia to review decisions made by the Department of Immigration and Multicultural Affairs concerning refugees in Australia.

• Motoo Noguchi, Counsel, Office of the General Counsel, Asian Development Bank

Today I would like to share with you some recent findings from researches conducted by the Asian Development Bank (ADB) under a regional technical assistance project. I would discuss two major aspects: an economic research and observations from country studies.

The project, that started in May 2001, was financed from the Japan Special Fund in the ADB. It targeted nine member countries, including three Association of Southeast Asian Nations (ASEAN) countries (Indonesia, Philippines, and Thailand) and six small Pacific island countries—Cook Islands, Fiji Islands, Marshall Islands, Nauru, Samoa, and Vanuatu. The project thus covered most of the countries in the region that are on the FATF’s list of noncooperative countries and territories.

The project conducted country studies and the economic research, and established a web site for APG. A one-day seminar on fighting money laundering and terrorist financing was held in conjunction with the APG’s annual meeting in Brisbane in June 2002. We are now compiling a manual on fighting money laundering and terrorist financing—
a compilation of existing rules, conventions, regulations, guidelines, and best practices from many sources. We expect to upload this manual on the APG’s web site as well as distribute in hard copies.

The economic research on the effects of money laundering on economic development discussed the issue from a point of view of four sectors—financial sector, real sector, external sector, and offshore financial centers. The findings are that money laundering undermines domestic capital formation; it depletes the growth of the real sector; it diverts capital from development; it hinders the development role of offshore financial centers.

The report concluded that effective policies on money laundering will reinforce a variety of other good governance policies that help sustain economic development, particularly by strengthening the financial sector. The report is uploaded on the APG’s website (currently in the section of 2002 Annual Meeting Documents).

I believe that this is one of few studies concentrating on the qualitative effects of money laundering, especially on economic development. Mr. Daniel Kaufmann has just made the point that money laundering is really a matter to be considered in a wider context of financial governance issues, not as a stand-alone issue.

The country studies we conducted have revealed that institutional capacity to fight money laundering is generally inadequate—seriously so in some of the small Pacific island nations. In a few cases, just one or two government officials, operating almost without any assistant, were responsible for actions relating to anti-money laundering and combating terrorist financing.

This is not unusual in small countries. But under such circumstances, it is very difficult, even unrealistic, to expect the governments to satisfactorily implement or supervise anti-money laundering measures. In addition to urgent needs for technical assistance, we will need to develop effective measures to address the problem of institutional capacity.

This is fundamentally an issue to be dealt with by each government, but perhaps some assistance may be possible from external donors. I heard, for example, that the United Nations Office on Drugs and Crime sent an expert for a year or so to Marshall Islands to assist them in establishing a system, and I think that may have helped that country to
be removed from the FATF’s Non-Cooperative Countries and Territories (NCCT) list.

*Motoo Noguchi* is an attorney in the Office of the General Counsel of the Asian Development Bank (ADB) and a project officer for the ADB’s first regional technical assistance program on money laundering. He has represented the ADB in international and regional forums on money laundering and terrorist financing. He is also responsible for the ADB’s first policy paper on these issues, a paper that will establish ADB’s medium-term policy.

Since early 2000, Mr. Noguchi has been seconded to ADB from the Japanese Ministry of Justice, where he was a public prosecutor, a government attorney, and a law professor for a total of 15 years. From 1996 to 2000 he was engaged in legal reform projects for Asian developing countries under Japanese overseas development assistance programs.

Mr. Noguchi passed the Japanese national bar exam in 1982. He earned his BA in law from the University of Tokyo and an LLM equivalent from the Supreme Court Institute of Japan. He was a visiting scholar at the University of Washington Law School in 1992–93.
Wrap-up

- John McDowell, Lead Anti–Money Laundering Specialist, Financial Market Integrity Department, World Bank

Based upon today’s discussions it is evident that some progress has been achieved in developing regimes to combat money laundering and terrorist financing. However, as several speakers already mentioned, countries vary substantially on their levels of progress in achieving a fully operating AML/CFT regime. It would be helpful, I believe, if countries would seek assistance from their neighbors—those that have already made progress in developing their AML/CFT regimes. For example, Pakistan has made progress toward developing an anti–money laundering regime and has developmental experience to share with their neighbors. Pakistani authorities could assist some countries in the region that are just beginning to develop their AML/CFT frameworks and provide important information to overcome some implementation barriers.

With new laws and regulations come significant demands for technical assistance. The Asian Development Bank and Asia/Pacific Group on Money Laundering both indicated the need to sequence and coordinate technical assistance; we here at the World Bank—and at the IMF—share the belief in the importance of coordinating and sequenc-
One of the first issues to be addressed is awareness. It is difficult to gain acceptance of AML/CFT laws unless the public, politicians, and legislators are aware of the difficulties that money laundering can cause in a country and in the region. The impact of money laundering on the financial sector and on capital formation has been discussed thoroughly today. After an awareness campaign, countries need assistance in drafting a legal framework. The World Bank and IMF stand ready to provide that assistance.

When a legal framework is decided upon the development of a financial intelligence unit should be undertaken. FIUs require specialized software, hardware and training to function properly and effectively. The Bank and Fund may be able to help in those areas and in any event will review requests for assistance and try to match donors and providers to meet these needs.

No anti-money laundering regime can work properly without adequate institutional capacity in three areas: the financial sector (financial institutions, supervisors), the law enforcement sector (judges, prosecutors, financial investigators) and a FIU to receive, analyze, and disseminate suspicious transaction reports. Unless all three are working together properly, the system will not be effective.

In the financial sector it is necessary to provide training for supervisors and bankers on compliance and their legal responsibilities under AML/CFT laws and regulations. Judges, prosecutors and law enforcement officials need to be trained to investigate, prosecute, and hear money laundering cases. In this regard AML/CFT typologies are important, especially in this region, where money laundering can take a variety of forms. Typologies seminars for the region are important and very useful for those charged with AML/CFT responsibilities.

Information sharing and the development of mutual legal assistance treaties appears to be a factor and barrier in the region. Other special regional issues include, alternative remittance systems, non-banking financial institutions, and cross-border transactions—all are additional challenges in the fight against money laundering and terrorist financing.
Before joining the World Bank as a consultant at the beginning of 2002, **John McDowell** served as senior policy advisor for the U.S. Department of the State, where he was responsible for developing policy on global financial crime related to money laundering, terrorist financing, and bank regulation. His responsibilities also included the global technical assistance program for financial crime.

Mr. McDowell was formerly an executive with the Department of Treasury’s Office of the Comptroller of the Currency. He has extensive experience in bank regulatory compliance and safety and soundness issues, and in conducting seminars and training programs for state, national, and foreign groups in financial crime, money laundering, and bank regulation and compliance.

Mr. McDowell holds an MPA in business and government from Harvard University and a bachelor’s in business administration from the University of Florida.
Annex A: Money Laundering and its Broader Context

Money Laundering and its Broader Context: Public, Private, and Financial Sector Governance Matters Enormously to a Diagnosis and Understanding of the Causes and Consequences of Money Laundering

Daniel Kaufmann, World Bank Institute
www.worldbank.org/wbi/governance/

Background Empirical Materials for Discussion

Note: All data contained here is preliminary and for discussion only, reflecting research-in-progress.
Far from a Simple Laundromat: AML within a Broader Perspective—A Schematic Chart

Misgovernance, Money Laundering, and Terrorism

Stage 1: Type of Business Activity and Source of Profit

- Legal Business
- Informal Financial and Other Institutions: • Hawalas • Exchange Rate Market (peso) • Commodities (gems, etc.) • Cash • Others

Stage 2: Type of Financial Transaction/Intermediary

- Legal Financial Transaction through Bonafide Financial Institution

Stage 3: Use of Funds/Profits

- Legal Consumption/Investment/Development
- Illegal: Corruption by Country Leaders/Politicians
- Organized Crime/Racketeering/Extortion/Gambling
- 'Charities' and Other Front Companies

Stage 4: Development?

- Pro-Development
- Anti-Development and Global Public 'Bad'

Source A: Good Governance

Source B: Misgovernance and Corruption in the Public Sector and Corporate/Financial Sector

Source C: Drug Trafficking/Arms Trade/Prostitution

Money Laundering

Money Laundering #1
- A) Through Banks
  - i) 'Placement'
  - ii) 'Layering'
  - iii) 'Integration'
  - iv) e-banking

Money Laundering #2
- B) Through NBFIs
  - i) Real Estate
  - ii) Securities Brokers/Derivatives/X-Rate Market
  - iii) Leasing/Insurance Companies
  - iv) Others

Source(s) B (B1, B2)

Anti-Development and Global Public ‘Bad’

2000 TERRORISM
Draft 11/01

Money Laundering and Terrorism — 2002 Preliminary
Regional Averages Based on Reports from Firms in 80 Countries

The costs of business from terrorist threat are on the scale from 1 to 7 with possible responses from executives of 1, 2, 3, 4, 5, 6, 7. 1 is “The threat does not impose significant costs on business” and 7 is “It imposes significant costs.” Money laundering through the banking system and money laundering through non-bank channels are on the same scale, with 1 being ‘extremely rare’ and 7 ‘pervasive’.

Source: Global Competitiveness Survey 2000.
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Source: Global Competitiveness Survey 2000.
Implications of Broadening the AML Framework

• Understanding/diagnosing main manifestations of misgovernance and corruption in public and private sector in the country is key for AML — and it varies from country to country

• Addressing main sources of laundered funds: is it narco-traffic, organized crime; public sector corruption from the budget or procurement; tax evasion; arms trade; or other source?

• Bank vs. Non-Banking Money Laundering: country specifics matter — non-banking sector may be important in some countries; and within non-banking: formal vs. informal institutions

• Money Laundering and Terrorism Financing: complex link, more important in some countries — but terrorism activities can also be financed by profits from ‘quasi-legal’ activities

• Actions: beyond narrow AML rules, laws, and regulations alone

• The Power of Data and Diagnostics: Measure, Monitor, and Control