



## Fighting “Dirty Money” and Illicit Flows to Reduce Poverty

### Transparent Financial Systems and Robust Mechanisms for Asset Recovery

#### SYNOPSIS

The Bank contributes to the fight against corruption and other illicit flows through the Stolen Asset Recovery (StAR) Initiative and Financial Market Integrity (FMI) unit, which promotes the integrity of financial flows and helps client countries put in place the criminal justice tools to go after the proceeds of serious crimes. By helping countries establish systems to obtain information on the source, destination and ultimate beneficiary of financial flows, the Bank supports efforts to track illicit transactions both nationally and globally, and disrupt them. Meanwhile, the StAR initiative - a partnership between the Bank and the United Nations Office on Drugs and Crime - helps countries go after funds that have been stolen by corrupt officials. Corruption diverts funds that could otherwise be used to support economic growth and build public services, and there is growing evidence that illegal activities such as organized crime and drug trafficking severely undermine poverty reduction. It is estimated that US\$20 billion to \$40 billion – the equivalent of 20 to 40 percent of total annual international development assistance-- is stolen from developing countries each year. Since being established in 2001 (Financial Market Integrity unit) and 2007 (StAR Initiative), both units have helped strengthen financial intelligence institutions, pass reforms and build capacity in over 52 countries.

#### Challenge

Addressing financial crime is challenging, not least because gathering evidence of the actual criminal acts is very difficult, especially in a cross-border context. Using financial flows as a proxy, anti-money laundering efforts follow the money trail to pursue criminals and deprive them of their ill-gotten gains. Anti-money laundering also allows for the targeting of those who aid and abet criminals (intermediaries), and eases international cooperation towards the prosecution of financial crimes. Initially driven by the G7 and conceived as a developed country agenda by the Financial Action Task Force (FATF), these efforts have become much more global over the last ten years. The FATF network now includes more than 170 countries. Largely as a result of Bank engagement, the challenges confronting developing countries are now being addressed.

Global efforts around financial crime now stress the need for customization and a focus on country-driven risks, highlight the problems posed by cash-based economies, help countries where the main generator of dirty money is corruption and ensure that integrity and financial inclusion are dealt with hand-in-hand.

#### Approach

The World Bank Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) program was introduced in 2001 in the context of the Financial Sector Assessment Program (FSAP), with AML/CFT being the only mandatory element in any FSAP and FSAP update. This reflects that the integrity of a financial system is critical to its stability and development.

The work conducted by StAR and FMI is now fully embedded in Bank’s Governance and Anti-Corruption agenda. The past decade has seen a wealth of research on and experience of how accountable and transparent states create opportunities for poor people, provide better services, and improve development outcomes. As governments around the world improve governance and tackle corruption, they are seeking support to craft and implement complex programs of reform, build supporting coalitions, and monitor their impact. Both StAR and FMI aim to share knowledge, and bring complementary tools to this overall mobilization, focusing on money flows and criminal justice.

To achieve these objectives, both StAR and FMI use a combination of instruments that include diagnostic work (essentially AML/CFT assessments), technical assistance and policy development. Policy development and knowledge dissemination are critical to advocacy for developing countries, and efforts to stay at the cutting edge of integrity challenges. Technical assistance remains the primary source of impact. StAR and FMI help client countries establish effective legal and institutional frameworks that are tailored to their specific circumstances and risks, and build capacity so that these tools can be effectively used.

## Results

The results framework for FMI and StAR differ according to the delivery mechanisms. Policy and advocacy work is essentially knowledge driven, and aims at influencing international standard setters such as FATF and financial centers, among others. The objective of advisory and technical assistance engagement is to help client countries set up and implement effective AML/CFT and asset recovery regimes<sup>1</sup>. To date, Financial Intelligence Units have been established in over 20 countries and 131

<sup>1</sup> Countries include: Afghanistan, Algeria, Argentina, Armenia, Bangladesh, Belarus, Benin, Burkina Faso, Cambodia, Cameroon, China, Colombia, Croatia, Fiji, Gabon, Ghana, Guatemala, Guinea Bissau, Haiti, Honduras, India, Indonesia, Ivory Coast, Jordan, Kazakhstan, Kenya, Kyrgyzstan, Lao PDR, Malawi, Malaysia, Mali, Mauritania, Mexico, Moldova, Mongolia, Morocco, Mozambique, Namibia, Nigeria, Pakistan, Senegal, Sierra Leone, Sudan, Swaziland, Syria, Tajikistan, Togo, Tunisia, Turkmenistan, Uzbekistan, Vietnam, Yemen.

AML/CFT reforms have been implemented in 61 client countries. Examples of impact include:

- Between 2005 and 2010, the Bank’s technical work on AML/CFT helped pave the way for 61 client countries to implement 131 reforms to substantially improve their respective AML/CFT regimes. The highest level of total reforms was in the field of AML/CFT legislation with 48 countries setting up or revising their AML/CFT legal framework, which works as the foundation for advancement on other reforms. Of these reforms, 31 laws or bills were passed by the countries’ respective governments and 17 laws or bills were submitted to the countries’ respective governments for consideration and passage. The highest level of reform was seen in Africa with 48 reforms, followed by East Asia & Pacific and Europe & Central Asia with 23 and 25 reforms, respectively.
- Between 2005 and 2011, assisted in the set up of new institutions such as Financial Intelligence Units in more than 20<sup>2</sup> countries
- Held 512 technical assistance events, including scoping missions, workshops, desk reviews, and other on-site knowledge sharing activities, between 2004 and 2011. As a result:
  - Trained approximately 2800 staff from more than 80 jurisdictions on how to conduct analysis of financial intelligence.
  - Trained 700 examiners of financial sector supervisors from more than 20 countries on how to conduct on-site supervision and help such supervisors develop their own tailor made on-site supervision manual to improve the quality and impact of their enforcement
  - Built capacity of more than 100 financial analysts, financial investigators, prosecutors, magistrates and judges across the globe to use “follow the money” tools

<sup>2</sup> Countries include: Cameroon, China, Gabon, Haiti, Kazakhstan, Kyrgyzstan, Mauritania, Namibia, Niger, Nigeria, Republic of Central Africa, Senegal, Sierra Leone, Tajikistan, Uzbekistan

- Between 2005 and 2010, implemented the Financial Analysis Capacity Enhancement Program, which helped client countries establish and enhance the process of developing, analyzing, and using financial intelligence to identify risks in a financial system, as well as detect instances of money laundering and terrorist financing. The program has been rolled out in 12 countries: Afghanistan, Cameroon, Iraq, Kosovo, Lao PDR, Malawi, Mexico (the pilot country), Moldova, Namibia, Nigeria, Syria, and Swaziland.
- Provided support for countries joining international networks of practitioners. More than 10<sup>3</sup> Financial Intelligence Units of developing countries that have received assistance have now joined the Egmont Group, which brings together FIUs, to facilitate international cooperation in financial intelligence.
- Brought about direct contacts between practitioners, therefore facilitating the provision of international assistance in the context of asset recovery cases

## Bank Contributions

Both StAR and FMI are essentially advisory units. Some lending has in the past incorporated AML/CFT related components— either in the context of Development Policy Operations or Investment Operations. There are also some examples of Technical Assistance loans including AML/CFT components. Such lending operations were then led by the respective Regions, with FMI providing technical support.

### *The advisory services described above include:*

1) Technical assistance; through workshops, mentorships, hands-on trainings and advisory services supporting countries in: developing effective laws, regulations and institutional frameworks; assessing the risk of money laundering and financing of terrorism on their economies and financial systems; training financial sector supervisors and investigators, prosecutors, or judges; and designing and

implementing effective asset disclosure systems for public officials.

2) Policy development; through collaboration and research, FMI contributes to the international debates with a unique perspective that links anti-money laundering efforts with governance and anti-corruption, financial inclusion, ease of doing business, taxation, stolen asset recovery, asset disclosure, environmental crime, and other development issues, and

3) Assessments of countries' anti-money laundering and combating terrorism financing regimes to diagnose effectiveness and areas of potential risk, as stand-alone diagnostics or in the context of the Financial Sector Assessment Program (FSAP).

As mentioned above, StAR's interventions have evolved from a strong focus on policy / advocacy work to a rebalancing towards assistance to client countries on asset recovery, with a premium on hands-on capacity building for recovering stolen assets stashed abroad. Overall, the financial resources allocated to these advisory services range between 5 and 7 million dollars per year, and have been financed by a mix of Bank and Trust Funds.

## Partners

In essence, both StAR and FMI must work with partners to achieve results. The StAR Initiative is a joint partnership between the World Bank and the United Nations Office on Drugs and Crime, ensuring that all activities are conducted under the umbrella of the UN Convention against Corruption (UNCAC) – specifically Chapter V on asset recovery. Beyond this funding partnership, StAR is engaging other partners – international organizations (e.g. UNDP, OECD, FATF), financial centers (G20 members, UK, US, Switzerland), countries impacted by corrupt activities (benefiting from StAR assistance) and civil society (e.g. Transparency International, Global Witness).

FMI has also worked with a range of partners since the start of the AML/CFT program. Because of the FSAP umbrella, the International Monetary Fund is a critical partner – both in terms of policy and technical assistance. FMI is also thoroughly engaged with the Financial Action Task Force (FATF) and its regional bodies and runs two mentorship pro-

<sup>3</sup> Armenia, Belarus, India, Kyrgyzstan, Malawi, Mongolia, Nigeria, Syria, Turkmenistan, Uzbekistan, Vietnam

grams jointly with the UNODC (one in Central Asia, one in the Mekong Region). Other partners include the United Nations, the Organization for Economic Cooperation and Development, the Organization for Security and Co-operation in Europe, the Egmont Group of Financial Intelligence Units, and the Commonwealth Secretariat. FMI also works with several bilateral partners – either in the context of their support and contribution to the AML/CFT program, or through coordinated and jointly delivered trainings.

## Moving Forward

FMI provides client countries and World Bank staff with tools that increase transparency and go after “dirty money” to strengthen the financial soundness, safety and integrity of financial systems. Our AML/CFT and asset disclosure tools offer innovative ways to fight crimes and address development issues of governance and anti-corruption, financial inclusion, ease of doing business, stolen asset recovery, and illicit flows. The training and capacity-building provided by FMI helps sustain national efforts to strengthen the governance and anti-corruption agenda. The World Bank is the only multilateral technical assistance provider on “illicit flows” that has a specific focus on developing countries. It is also the lone provider with the expertise and skills to cover the whole range of issues at stake in AML/CFT— including laws and regulations, as well as institutional strengthening and capacity building in the criminal justice sector. We will con-

tinue to provide advice and technical assistance to client countries, as well as the World Bank.

## Beneficiaries

In the case of Namibia, FMI began its initial engagement through an assessment of the anti money laundering system in 2005. Following this evaluation, wide ranging technical assistance requests from Namibia were received. FMI’s assistance to the country involved help in legal drafting for the AML/CFT law, legal drafting for the implementation of regulations, training of financial sector supervisors, assistance in the establishment of the Financial Intelligence Unit and capacity building for the authorities to engage and train compliance officers in the banking system. There was also technical assistance related to improvements in domestic coordination, as well as preparing a national risk assessment on ML/FT. Further, thanks to the trust built with Namibian authorities over the years, they actively participated in a recent FMI publication that assessed the impact of “ill gotten gains” (such as the proceeds of crime relating to corruption) on the overall economic and financial system. The Namibian authorities used the findings of this publication as a way to raise awareness on the magnitude of the issue and prioritize the use of their AML tools towards the most important criminal acts. At the same time, FMI has used the expertise created in Namibia by mobilizing Namibian experts to deliver trainings with FMI in West Africa.

## LEARN MORE

## Links

- UNODC: <http://www.unodc.org/unodc/en/corruption/StAR.html://www.ccrif.org/>
- FATF and OECD: <http://www.fatf-gafi.org/dataoecd/20/14/41563294.pdf>  
<http://www.oecd.org/dataoecd/62/26/48300917.pdf>
- Asia/Pacific Group on Money Laundering (APG): <http://www.apgml.org/>
- Eastern and South African Anti Money Laundering Group (ESAAMLG):  
<http://www.esaamlg.org/>
- Intergovernmental Action Group against Money-Laundering in Africa (GIABA):  
[http://www.fatf-gafi.org/document/60/0,2340,en\\_32250379\\_32236869\\_34393596\\_1\\_1\\_1\\_1,00.html](http://www.fatf-gafi.org/document/60/0,2340,en_32250379_32236869_34393596_1_1_1_1,00.html)
- Eurasian Group on combating money laundering & financing of terrorism (EAG):  
<http://www.eurasiangroup.org/>
- Middle East & North Africa Financial Action Task Force (MENAFATF):  
<http://www.menafatf.org/>
- Council of Europe's action against money laundering and financing of terrorism(Moneyval):  
<http://www.coe.int/t/dghl/monitoring/moneyval/>

## Multimedia

- *Caption:* Poster Announcing the StAR participation in Egypt conference on Arab Spring, organized by the civil society from the region.  
[http://www1.worldbank.org/finance/star\\_site/documents/events/ACCML2011-Flyer\\_14.pdf](http://www1.worldbank.org/finance/star_site/documents/events/ACCML2011-Flyer_14.pdf)
- *Caption:* Panelists from StAR at the Egypt Conference *Photo Credit:* Nehal El Kouesny, World Bank
- *Caption:* StAR receives award from civil society at the Egypt Conference *Photo Credit:* Nehal El Kouesny, World Bank
- *Caption:* StAR-organized training in Kabul Afghanistan, December 14, 2011  
*Credit:* Kevin Stephenson, World Bank
- Video interview with Jean Pesme, FMI Manager  
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