

# **Anti-Money Laundering and Combating the Financing of Terrorism**

***Regional Videoconference:  
Anglophone West Africa Region—  
The Gambia, Ghana, Nigeria,  
and Sierra Leone***





World Bank and IMF Global Dialogue Series

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## **A Worldwide Challenge...**

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*Director, Monetary and Exchange Affairs Department,  
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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. Both 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. 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 irrevocably harmed through its involvement in money laundering 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 the laundering of 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 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, in consequence, have intensified their work in this area. Both institutions worked with FATF to develop a comprehensive global methodology for assessing country compliance with FATF’s international standards. We are also cooperating to provide training and technical assistance to client countries and to coordinate efforts with other international organizations, including 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 Third Videoconference in the Global Dialogue Series on Anti-Money Laundering and Combating the Financing of Terrorism**

**Margery Waxman**

*Director, Financial Market Integrity, World Bank*

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*Director, Global Governance and Latin America Capacity Building, World Bank Institute*

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*Assistant Director, Special Financial Supervisory Issues Division, International Monetary Fund*

“Anti-Money Laundering and Combating the Financing of Terrorism,” a Global Dialogue Series, was inaugurated by the World Bank and IMF in January 2002. The first dialogue in the series covered several countries from the World Bank’s Europe and Central Asia (ECA) region and the second covered the Bank’s Latin America and the Caribbean (LCR) region. The third, fourth, and fifth dialogues dealt with Africa. The third dialogue, held on September 10, featured experts from The Gambia, Ghana, Nigeria, and Sierra Leone; the fourth, held on September 11, featured experts from Kenya, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, and Uganda; and the fifth, held on September 12, included experts from BCEAO (Banque Centrale des Etats de l’Afrique de l’Ouest), BEAC (Banque des Etats de l’Afrique Centrale), Angola, Cape Verde, Democratic Republic of Congo, and Rwanda. This booklet summarizes the third dialogue.

The Global Dialogue was a live videoconference conducted over the World Bank’s Global Distance Learning Network. Three hours in length, it involved more than 32 participants from client countries who represented central banks, ministries of finance, ministries of justice, attorney general chambers, ministries of internal affairs, ministries of trade and industry, national committees on financial crime, police services, securities and exchange commissions, and other institutions.

The event provided a unique opportunity for four African countries, the World Bank, the International Monetary Fund, the Group for Inter-Governmental Action against Money Laundering (GIABA, the FATF-style body for ECOWAS), and the African Development Bank (AfDB) to discuss the challenges they face in combating money laundering and the financing of terrorism. The participants learned about the progress of each country and identified the type of assistance they need to make further progress. Moreover, they recognized the paramount 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 sectors. Efforts to fight money laundering and combat the financing of terrorism 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 laundering and terrorist financing. Important issues emerging from the dialogue and areas for future international assistance are summarized in the report that follows.



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**R. Barry Johnston**  
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*Special Financial  
Supervisory Issues Division  
International Monetary Fund*

## **Videoconference Agenda—September 10, 2002**

**Gerard Byam, Moderator**

*Sector Manager, Financial Sector, Africa Region, World Bank*

### **Welcome and Introduction**

- Gerard Byam

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

- Richard Zechter, Senior Financial Sector Specialist, Financial Market Integrity, World Bank
- R. Barry Johnston, Assistant Director, Special Financial Supervisory Issues Division, International Monetary Fund

### **Governance in the Financial Sector: The Broader Context of Money Laundering and Terrorist Financing**

- Daniel Kaufmann, Global Governance and Latin America Capacity Building, World Bank Institute

### **Country Presentations—How Have Governments Responded?**

- Abdul Cole, Permanent Secretary, Department of State for the Interior and Religious Affairs, The Gambia
- Kwaku Addeah, Assistant Director, Legal Department, Bank of Ghana, Ghana
- Jude C. Esiaka, Acting Director, Foreign Operations Department, Central Bank of Nigeria, Nigeria

- Francis B. Roberts, Director, Banking, Bank of Sierra Leone, Sierra Leone

The representatives from The Gambia, Ghana, Nigeria, and Sierra Leone were asked to address the following issues:

- What are 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 or terrorist financing?
- What type of assistance does the country need from international organizations to fight money laundering and terrorist financing?

### **The Urgency of Regional Collaboration**

- Mamadou Lamine Fofana, Coordinator, Group for Inter-Governmental Action against Money Laundering in Africa (GIABA)
- Cecelia Akintomide, Principal Legal Counsel, Legal Department, African Development Bank (AfDB)
- Mohamed Bourenane, Principal Investment Economist, African Development Bank (AfDB)

### **Open Discussions on Challenges for Implementation**

- Rapporteur: John McDowell, Lead Anti-Money Laundering Specialist, Financial Market Integrity, 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:

### *Key Challenges Faced in the Participating Countries in Combating Money Laundering and the Financing of Terrorism*

- Liberalization of the financial infrastructure
- Regional integration
- Cultural traits
- Lack of institutional capacity
- Criminal exploitation of technology
- Expansion of the unregulated informal remittance sector
- Enhanced international cooperation

- Inadequate efforts to build awareness in the legislature, government, and society
- Lack of funds and technical expertise
- Corruption barriers

*Key Issues and Technical Assistance Needs Raised by Country Representatives*

- Assistance to develop an effective legal framework for combating money laundering and the financing of terrorism.
- Development assistance for financial intelligence units (FIUs).
- New technology to combat criminal advances in money laundering and terrorist financing.
- Enhanced international cooperation and information sharing.
- Capacity building through training, exchange programs, and new equipment.
- Training for law enforcement officials in financial investigative techniques.
- Training for bank regulators and bankers in financial sector issues surrounding money laundering and terrorist financing.
- Donor funding to develop and enhance anti–money laundering and anti–terrorism finance regimes.

*Issues of Concern to the African Development Bank*

- Money laundering and the financing of terrorism are counterproductive to development initiatives.
- Awareness must be raised in the region.
- It is necessary to build local capacity to combat money laundering and the financing of terrorism.

- Training of bank staff, officials, and professionals is critical.
- Money laundering and the financing of terrorism are governance problems.
- Efforts to fight money laundering and the financing of terrorism have to be shared by the whole society.

*Issues of Concern to the Group for Inter-Governmental Action against Money Laundering in Africa (GIABA)*

- A critical need exists to harmonize anti–money laundering and terrorist financing laws.
- Major government and private sector participants need training in combating money laundering and terrorist financing.
- Anti–money laundering and combating terrorist financing activities should be coordinated under a common framework.



## Speaker Presentations

### Welcome and Introduction

- **Gerard Byam**, Sector Manager, Financial Sector, Africa Region, World Bank

I would like to welcome all participants including staff of the World Bank and IMF to the global dialogue on combating money laundering and terrorist financing activities. I am especially grateful for the substantial representation of participating countries—The Gambia, Ghana, Nigeria and Sierra Leone. I am also grateful for the presence of our colleagues from various institutions—the IMF, the African Development Bank, and the Group for Inter-Governmental Action against Money Laundering in Africa (GIABA).

This event's importance lies in its broader context—enhancing the confidence of the nationals of all borrowing member countries in the legitimacy and soundness of all financial systems. This is essential if we are to broaden access to financial services throughout Africa. In this regard the World Bank has, for a long time, supported our client countries in capacity building and the regulation and supervision of financial markets. A part of those efforts is anti-money laundering regulation.

The horrible terrorist events of one year ago were a reminder of the important need for all of us to intensify our efforts in this area. More generally, we must find ways to limit the abuse of financial systems. We have organized a series of global dialogues to bring together those whose expertise and ideas can guide us in our work.

Our aim today is to engage in a candid dialogue of the challenges the participants face so that we can ensure that the assistance we, and our partners, provide will be appropriately targeted and effective.



***Gerard Byam** manages the Financial Sector Unit of the World Bank's Africa Region. He has worked for the Bank for 14 years and on financial sector issues in Africa for the last 10. Before joining the World Bank, he worked for the Caribbean Development Bank in Barbados and on a multi-donor technical assistance program in the eastern Caribbean. Mr. Byam has also lived in New York and Vancouver and has degrees from Queen's University in Kingston, Ontario, and the University of British Columbia.*

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

- **Richard Zechter**, Senior Financial Sector Specialist, Financial Market Integrity, World Bank

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

The principal contribution that the Bank can make is to assist countries in addressing the root causes of financial abuse by helping them to strengthen their economic, financial governance, and legal foundations.

In April 2001, the World Bank's board agreed to step up its anti-money laundering efforts, working in close cooperation with the International Monetary Fund. Specifically, the board decided that more attention should be placed on anti-money laundering issues in the Bank's diagnostic work, and that the Bank should be prepared to provide more

technical assistance to build capacity in client countries. At the same time, the board made clear that the Bank's role should be consistent with its development mandate and that it should not become involved in law enforcement activities.

Based on this guidance, the Bank, working together with the IMF, developed a methodology to assess a country's anti-money laundering regimes as part of the joint Financial Sector Assessment Program (FSAP). Under this voluntary program, Bank and Fund staff assess a country's financial sector risks and development needs. They also assess its compliance with key international standards, such as the Basel Core Principles for Banking Supervision. The results of the FSAP are summarized by the Fund and Bank in documents that the two institutions send to their boards. The results of the assessments are summarized as part of another joint Bank-Fund program, the Reports on Observance of Standards and Codes, or ROSCs. These summary assessments may be published if the country agrees.

After the events of September 11, 2001, the Bank's shareholders directed it to intensify its work on money laundering and the financing of terrorism. One element of the response was to expand the assessment methodology to include elements related to terrorist financing. Recently, we have developed a framework for collaboration with the Financial Action Task Force (FATF) to assess countries' compliance with FATF's 40 recommendations plus 8 special recommendations on terrorist financing. We are developing a common methodology to be used for mutual evaluations by both the FATF and FATF-style regional bodies and for assessments led by the Bank and Fund.

The post-September 11 action plan aims to enhance the Bank's capacity building assistance in this area. The Bank is now integrating the results of anti-money laundering assessments into our broader country assistance strategies, particularly where weaknesses can pose a significant governance and development risk. The Bank is providing technical assistance to countries to draft anti-money laundering laws and regulations, 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, in order to bring together leading experts and senior country officials for a constructive exchange of ideas.

Finally, the Bank and the Fund have launched an initiative to improve international coordination of technical assistance for anti-money laundering and combating the financing of terrorism. On April 22 we hosted a meeting in Washington to develop a mechanism for coordinating technical assistance. Participants included the FATF, FATF-style regional bodies, the United Nations Global Programme against Money Laundering, the United Nations Committee on the Financing of Terrorism, regional development banks including the African Development Bank, and key bilateral technical assistance providers.

As part of this initiative, we are working closely with the FATF-style regional bodies to help them coordinate and meet the technical assistance needs of their members. We look forward to working with the Group for Inter-Governmental Action against Money Laundering (GIABA) in this area as it becomes more active.



***Richard Zechter** is a senior financial sector specialist in the World Bank's Financial Market Integrity Department, where he is responsible for oversight and coordination of the Bank's technical assistance for anti-money laundering and combating the financing of terrorism. Previously, he worked in the Banking and Financial Restructuring Department, which assisted Thailand, Indonesia, and Korea during the Asian financial crisis.*

*He was also involved in the development of the Bank/Fund Financial Sector Assessment Program and initiatives to strengthen training for financial supervisors. Before joining the World Bank in 1998, he worked at the U.S. Department of the Treasury on global financial sector issues.*

- **R. Barry Johnston**, Assistant Director, Special Financial Supervisory Issues Division, International Monetary Fund

The IMF is very pleased to participate in today's global dialogue on anti-money laundering and combating the financing of terrorism (AML/CFT). The initiative to strengthen the integrity of the international financial system is a collaborative multinational effort, one that has gathered momentum over the last year. This Global Dialogue Series is an important part of that effort.

We have become deeply involved in assessments of compliance with international AML/CFT standards, and we have significantly expanded our technical assistance work to help countries meet those standards. We have intensified our collaboration with other agencies on the delivery of technical assistance.

We have worked closely with FATF and other standard setters and are now on the verge of completing a global methodology for assessing efforts to combat money laundering and the financing of terrorism. A comprehensive draft of this methodology is now circulating for comment, and we hope to have it finalized at the October plenary of the FATF. Following that plenary, we in the IMF and the World Bank will commence comprehensive assessments of the methodology.

Our boards have indicated that the Fund and the Bank should not become involved in law enforcement issues. Recognizing that assessments have to be comprehensive, however, they have agreed that we should lead assessments with experts—including experts on criminal law enforcement.

We have, since August of last year, been incorporating assessments of anti-money laundering into our FSAPs and our offshore financial sector assessments. More recently, these have also included assessments of efforts to combat terrorist financing. We have incorporated such assessments into 21 of our FSAPs and 8 of our Offshore Financial Center (OFC) assessments. We have 17 more offshore financial sector assessments scheduled this year.

Beyond assessments, we have significantly stepped up our technical assistance work. In collaboration with the Bank we have worked to strengthen countries' anti-money laundering and terrorism finance laws and regulations, aid the implementation of those laws and regulations, and bolster the procedures used by government entities responsible for enforcement. We have helped countries set up legal frameworks and establish financial intelligence units. We have been developing training and awareness programs and collaborating closely with other international agencies.

The policy, development, and organizational work are largely behind us. The next stage will be to implement our assessment program and our technical assistance.



**R. Barry Johnston's** division leads the IMF's fight against money laundering and the financing of terrorism. In previous positions during his 17 years with the Fund Mr. Johnston headed the Monetary and Exchange Policy Analysis Division, responsible for financial sector policy, analysis, and research, and the Exchange Regimes and Market Operations Division, responsible for members' foreign exchange systems and the liberalization of capital movements. Before joining the IMF, Mr. Johnston worked at the Bank of England,

*the British Treasury, and the Bank for International Settlements on monetary and financial sector policy. He has published extensively on financial sector issues. He is a graduate of Queens University Belfast and Manchester University.*

## **Governance in the Financial Sector: The Broader Context of Money Laundering and Terrorist Financing**

- **Daniel Kaufmann**, Director, Global Governance and Latin America Capacity Building, World Bank Institute

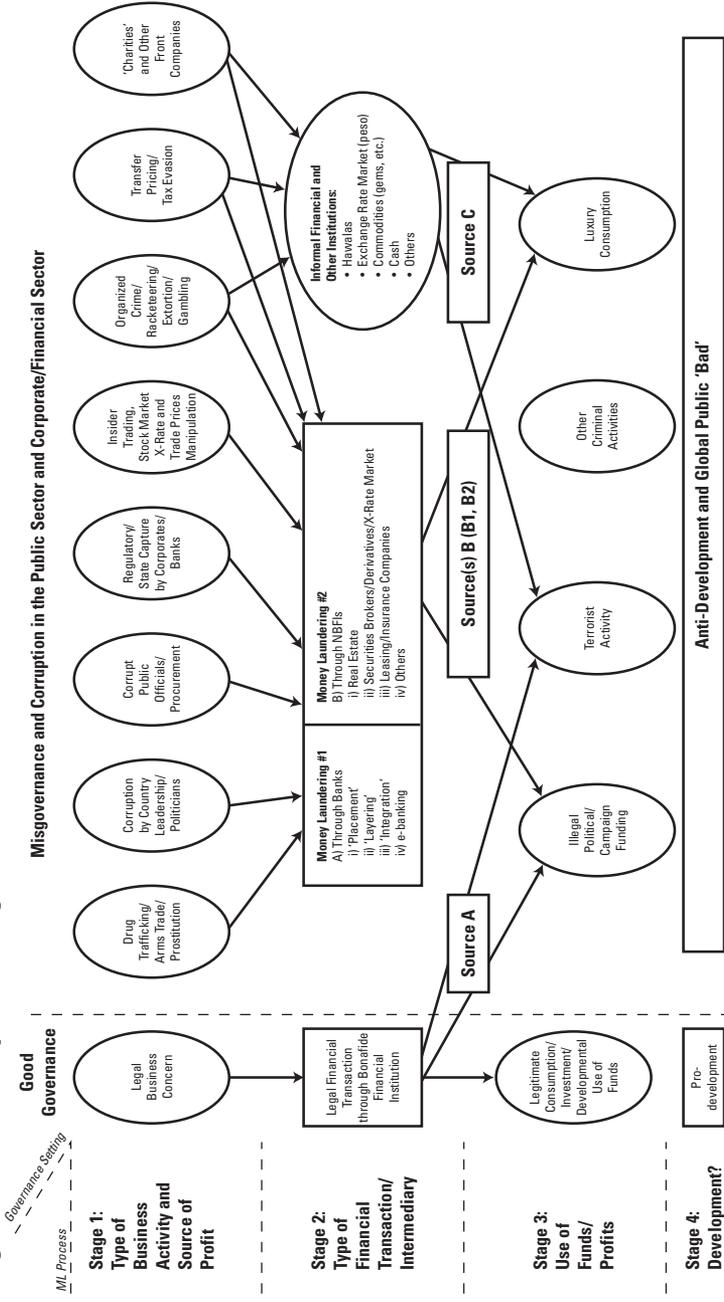
Even though substantial amounts of work have been done in the money laundering field, the focus until recently has been on particular banking institutions and a few countries. Since last September 11, however, the work has broadened to become a global concern. Many challenges and issues are still being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

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 through 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

# Misgovernance, Money Laundering, and Terrorism



through multinationals, drug trafficking, arms trade, corruption in procurement, and corruption in government and in the political classes. The relative importance of these sources varies 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 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 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 in Annex A depicts 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 plotgrams, where each ‘dot’ in the graphs represents 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 suggests 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 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** also directs the World Bank Institute's (WBI) capacity building efforts in Latin America. A recognized leading expert in the field of governance, he has pioneered new empirical and survey methodologies, and with his team he supports countries that request good governance and anticorruption assistance through a rigorous empirical, systemic, and strategy-driven approach. He frequently advises state leaders, governments and civil society. Before joining WBI in 1998 as manager, Dr. Kaufmann was lead economist in the Development Economics Group and also was the first chief of mission in Ukraine in the early nineties. 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 bachelor degrees in economics and statistics from the Hebrew University of Jerusalem, and an M.A. and Ph.D. in economics from Harvard University, where he was also a visiting scholar in the late nineties.*



## Country Presentations— How Have Governments Responded?

- **Abdul Cole**, Permanent Secretary, Department of State for the Interior and Religious Affairs, The Gambia

### *Response to AML/CFT*

The government of the Republic of The Gambia and its people would like to extend compliments to the World Bank Financial Sector Vice Presidency and the World Bank Institute in partnership with the International Monetary Fund and Africa Region of the World Bank for sponsoring such a laudable initiative.

Terrorism, as we all know, involves heinous and deliberate acts of violence committed for political, economical, cultural, and religious gains, thus creating a sense of overwhelming fear and intimidation in the hearts and minds of innocent citizens. It is the duty of every government, institution, organization, and individual to join hands and fight this menace by way of concerted effort.

The Gambian government stands to support all efforts and initiatives in the fight against terrorist financing and money laundering. In The Gambia the following measures have already been taken:

- The security authorities responsible for tracking down criminals and cross-border crime have been beefed up. Joint patrols are now conducted countrywide while the police force and security control points are reinforced based on information and intelligence gathering. Village heads and community leaders are now working hand in glove with security officials.
- The Gambian police force, in collaboration with other security services, has embarked on pursuing armed robbers operating around villages in the hinterlands. Cross-border ties have now been established to help prevent fleeing offenders from escaping justice. An anti-robbery squad has been formed—a well trained and specialized unit responsible for combating armed robbery and other crimes.
- Using the mass media and other community initiatives, the security forces have undertaken talk shows and other programs aimed at educating the general public about security related issues.
- The Drug Squad Unit has been expanded to assist in the implementation of our drug action plan. We also want to create a special canine unit to add reinforcement to the existing drug squad.

The Gambian government is in the process of enacting an antiterrorism bill covering acts of terrorism and related offenses, terrorist cash and terrorist property, prohibitions of charitable status, foreign incursion and recruitment, mutual assistance on extradition, implementation of the United Nations antiterrorism measures, and investigation and prosecution.

The Gambia is a member of the Group for Inter-Governmental Action against Money Laundering in Africa (GIABA). The completed draft of an anti-money laundering bill is under scrutiny in collaboration with the International Monetary Fund and is expected to be submitted to the cabinet for approval and subsequently to the national assembly for enactment into law.

This draft bill covers prevention, detection, and prosecution of money laundering offences. It also addresses the responsibility of financial institutions, their directors, and officers in disclosing suspicious transactions to the supervisory authority. In addition, the financial institutions are mandated to establish and maintain requisite internal

control measures to enhance the prevention and detection of suspicious transactions.

Money laundering activities normally transcend international borders. Thus there is the need for cooperation among nations. The government of The Gambia has incorporated in the draft bill the provision for collaboration of our courts and competent authorities with court authorities in different jurisdictions.

The aim of the government in the absence of the AML bill is to have all financial institutions put in place adequate policies, practices, and procedures that promote high ethical and professional standards and prevent the financial institutions from being used by criminal elements.

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

The key challenges in combating money laundering include the following:

- Offshore marketing and offshore banking provide possibilities for money launderers.
- The Gambia, being a small country, has some institutional weaknesses that are outmatched by the affluent organized crime and terrorist agents who depend on gaps and weak points of financial and law enforcement professionals.
- The use of cash rather than checks for most transactions makes the following of paper trails very difficult.

### *Institutional Arrangements to Combat Money Laundering and Terrorist Financing*

The antiterrorism bill has adequate provisions for collaboration between the drug squad of the police and the customs and excise authorities in the investigation and prosecution of terrorism-related activities. Likewise, the anti-money laundering bill emphasizes the collaboration of courts, police, supervising authorities, and financial institutions in the investigation and prosecution of money laundering activities.

## *Needs for Technical Assistance*

Required assistance from international organizations includes recruitment, financing, and training of officials of the law enforcement agency and authorities from the financial and other related sectors. Provision of financial and technical backup for the justice system, the police, and intelligence community are also needed.

*Abdul Rahman Cole is permanent secretary of state for the Department of State for Interior and Religious Affairs, in Banjul, The Gambia. He has a BA degree in economics and MPA in management.*

- **Kwaku Addeah**, Assistant Director, Legal Department, Bank of Ghana, Ghana.

The Government of Ghana and the Central Bank are very grateful for extending your invitation to us.

## *Response to AML/CFT*

Ghana has responded to money laundering and terrorism financing through the collaborative activities of its law enforcement agencies and the banking and financial institutions.

Before 1990, the term “money laundering” did not feature in discussions of the offenses we know as money laundering today. However, persons were prosecuted in respect of such underlying offenses as drug trafficking, fraud, counterfeiting, bribery and corruption, smuggling, and banking system abuse. In 1990 Ghana showed a limited response to money laundering when it promulgated the Narcotics Drug Control Enforcement and Sanctions Law, 1990. This law criminalized money laundering in the area of narcotics trading.

Concern for a comprehensive view of money laundering began in Ghana in 1997 in response to international concerns expressed by the General Secretariat of Interpol and the various United Nations General Assembly sessions on the incidence of economic and financial crime. In 1997 the Bank of Ghana and the Inspector General of Police, with the support of government, formed a Committee for Cooperation between Law Enforcement Agencies and the Banking Communities (COCLAB). The committee’s objective is to provide a forum for mem-

bers to exchange ideas, knowledge, and information about criminal syndicates and the process of obtaining evidence to track down and find culprits involved in money laundering.

The committee has influenced Ghana's anti-money laundering agenda by identifying illegal activities, contributing to a draft statutory framework for the prohibition of money laundering, and organizing seminars on money laundering and other economic crimes to sensitize the banking and nonbanking financial community and the law enforcement agencies.

As the statutory authority responsible for ensuring safety, soundness, and stability in the banking and financial system, the Central Bank of Ghana has taken steps to combat money laundering in the financial industry. The Bank of Ghana has directed all banks to put in place adequate policies, practices, and procedures to prevent a bank from being used as a conduit for money laundering and international terrorist financing. The Central Bank of Ghana has supported the activities of COCLAB since its inception and will continue to do so. With assistance from local and international bodies, the Central Bank has refined a draft money laundering bill for submission to the executive and legislative organs of government.

On July 11, 2002, Ghana's Parliament unanimously ratified the United Nations Convention for the Suppression of the Financing of Terrorism, the International Convention for the Suppression of Terrorist Bombing, and the OAU (the Organization of African Unity) Convention on Preventing and Combating Terrorism.

### *Institutional Arrangements to Combat Money Laundering and Terrorist Financing*

The law enforcement agencies, the Attorney General's Department, and the courts, on the one hand, and the financial regulators, on the other, are the established institutions involved in the monitoring, investigating, and prosecuting suspicious transactions. Key institutions in the first category are the police, the Bureau of National Investigations; the Serious Fraud Office; the Customs, Excise and Prevention Service; the Immigration Service; the Ministry of Justice and Attorney General; and the courts.

The financial regulators at the Central Bank of Ghana, the Securities Exchange Commission, and the National Insurance Commission have powers to investigate wrongdoing—including suspicious transactions. Where appropriate and where necessary, they report to the law enforcement bodies for further appropriate action.

It is envisaged that the institutional alignment will be refined when the money laundering bill is passed into law. It is also expected that the Money Laundering Authority would have an interdisciplinary composition like that of the COCLAB to enhance efficiency.

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

The key challenges Ghana faces are:

- **Liberalization policy.** The country's liberalization policy has changed the financial infrastructure. New financial institutions have emerged, notably new banks and nonbank financial institutions like forex bureaus, leasing companies, stock exchange brokers, and insurance companies. New products, new technologies, and new crimes have accompanied the liberalization package. Control restrictions have been removed or relaxed. The international community must acknowledge these, and clear action must be taken to strip liberalization of these undesirable elements.
- **Regional integration.** Under regional integration and liberalization, nationals of some other countries have been able to infiltrate Ghana's vibrant financial sector. Travelers bringing their money in cash or travelers' checks into cities will frequently purchase dollars and other foreign currencies from the banks and foreign bureaus. The sources of the money are unknown.
- **Influx of refugees.** The civil wars sweeping through West Africa have pushed refugees into this country. From time to time refugees receive remittances from persons they describe as their relations. Again, the real sources of these funds are unknown.
- **Cultural behavior.** Many Ghanaians shy away from reporting wrongdoers to law enforcement authorities. This cultural trait poses the greatest challenge in the fight to apprehend money launderers and terrorist financiers.

- Operational difficulties. In tracking down money launderers, every stage requires appropriate legal rules and procedures, trained personnel, adequate logistics, and effective coordination and collaboration between the banks and the law enforcement authorities. Regrettably, Ghana has severe limitations in handling each stage of the process—in terms of human capacity, funding, and information.

Ghana's position is that the attention given to the issue of money laundering and terrorist financing should now move beyond ad hoc measures to the development of a comprehensive anti-money laundering and anti-terrorist financing program.

### *Needs for Technical Assistance*

Ghana requires technical and financial support in conceptualizing and implementing an anti-money laundering and terrorist financing program. Key staff, financial regulators in particular, need training. Supervisory systems need to be upgraded by establishing direct interfaces with bank records to ensure speedy and more accurate data collection, processing, and monitoring. Officers that will enforce the new money laundering act need to be recruited and trained. Collaboration with international bodies and governments needs to be enhanced.

Ghana shares the concerns of the international organizations and governments on these two socioeconomic menaces. Ghana needs the cooperation and support of the international community to address the challenges posed by money laundering and terrorist financing activities.

***Kwaku Addeah*** is assistant director of the Legal Department at the Bank of Ghana. In 25 years with the bank, he has handled every aspect of its legal work, domestic and international. He also has served as legal advisor to the government-appointed chairman of the technical team responsible for restructuring the country's banks.

*Mr. Kwaku has undertaken consultancy assignments for the World Bank, United Nations Development Programme, and other institutions. A member of several associations and the recipient of numerous awards and honors, he holds an*

*LLM/PhD in banking law from Birmingham University in England. He earned a practicing law certificate and a BA (Law) from the School of Law of Ghana. He is a Humphrey Fellow.*

- **Jude C. Esiaka**, Acting Director, Foreign Operations Department, Central Bank of Nigeria, Nigeria

### *Response to AML/CFT*

The federal government of Nigeria has been leading the war against money laundering, advance fee fraud, and other financial crimes in the West African subregion. Though evidence of terrorist financing has not been established yet in our country, the security intelligence community has included terrorist financing in its focus since September 11, 2001.

Some of the Nigerian efforts include an agreement on mutual assistance in criminal matters with Commonwealth countries, the National Drug Law Enforcement Agency Act of 1988, and a Presidential Task Force on Financial Crimes established in 1991. Other enactments include the Deferred Bank Recovery and Recovery of Debts and Financial Malpractices in Banks Act of 1994, the Money Laundering Act of 1995, and the Advanced Fee Fraud Act of 1995. Also, a special fraud unit was established in the Nigerian police to investigate and prosecute cases bordering on criminal deception.

We have carried out raids on car dealers and bureau de change operators suspected to have links with money laundering. We have published a directory of businesses registered by the Corporate Affairs Commission of Nigeria. We have published the names of Nigerians convicted abroad for money laundering activities.

Nigeria is currently spearheading the adoption of a common money laundering law. We have conducted seminars and conferences on corruption and organized crime.

The government has proposed a bill to the National Assembly to establish a commission for antiterrorism, economic, and financial crimes. Nigeria has entered into memoranda of understanding with China, Turkey, Iran, Uganda, and many other countries. We have statistical records on the efforts of Nigerian police and the National Drug Law Enforcement Agency in combating money laundering.

## *Institutional Arrangements to Combat Money Laundering and Terrorist Financing*

We have some basic institutions statutorily charged with the investigation and prosecution of financial crimes—the Central Bank of Nigeria, the National Drug Law Enforcement Agency, the Nigerian police, and the intelligence community.

The Central Bank has been at the forefront in the fight against money laundering ever since the federal government subscribed to the global war against financial crimes. Some of its achievements include:

- Establishing a money laundering surveillance unit in the bank's international department in 1994. The unit is responsible for the implementation of the money laundering act by carrying out investigations relating to financial crimes, especially those involving money laundering, advance fee fraud, and suspicious transactions. The money laundering unit also trains financial sector operators, ensures proper reporting by banks and other financial institutions, and enforces procedures for disclosure of suspicious transactions by promptly reporting such transactions to the Central Bank of Nigeria.
- Emphasizing transparency in financial transactions through the Central Bank of Nigeria monetary policy and other relevant circulars.
- Attaching some civilian examiners to the National Drug Law Enforcement Agency to assist the agency with investigative efforts, particularly when bank records must be looked into.
- Establishing an interdepartmental committee on money laundering, advance fee fraud, and other financial crimes in the year 2000 to coordinate the efforts of the Central Bank of Nigeria in the fight against financial crimes.

The federal government established a Special Fraud Unit in the Nigerian police with responsibility for investigating, arresting, and prosecuting advance fee fraudsters. The unit is also charged with recovering fraudulently obtained money and properties. It has arrested and prosecuted many criminals, recovered huge sums of fraudulently obtained money and goods, and blocked accounts used in receiving

fraud proceeds. It has worked with law enforcement agencies from other countries, especially the United States Secret Service, to track down fraudsters.

The National Drug Law Enforcement Agency, one of the major organizations charged with implementing the money laundering act, has also contributed enormously in tackling this crime—particularly in the areas of forfeiture of assets acquired from the proceeds of the hard drug trade, prosecution of some banks for noncompliance with money laundering laws, and dismantling of major drug syndicates. The agency has also provided useful information to our counterparts abroad, especially the United States, to facilitate their financial investigations.

A new commission, the Independent Corrupt Practices and Other Related Offences Commission, or ICPC, was established in 2000 to deal with corrupt practices. The National Committee on Financial Crimes was inaugurated in December of last year to coordinate efforts of agencies involved in the fight against financial crimes. It is charged with the prevention, investigation, and prosecution of all advance fee fraud cases having international linkages, all advance fee fraud cases within the country involving huge amounts of money, all cases of money laundering in connection with these cases, and all other fraud cases which may be referred to it.

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

Many factors affect the fight against money laundering and terrorist financing. These include the phenomenal advancement in information technology, which has been exploited by criminals, and the existence of a large and unregulated informal sector operating in Nigeria. We have inadequacies in our legal framework, especially the money laundering act. We lack cooperation in the fight against money laundering from the international community, especially the United States and European countries. We lack coordination of financial intelligence information and activities.

We also have social and logistic deficiencies. We have a cash-oriented economy because of several factors leading to poor banking habits. We are limited by the technical capacity of regulators and government agencies. We have insufficient public awareness of money laundering

in spite of all the awareness programs that we put in place. We have societal values and a reward system that also inhibit the fight against money laundering.

A last, and very serious, a factor that inhibits the fight against money laundering is inadequate funding of the various agencies and officials that are supposed to fight this crime.

### *Needs for Technical Assistance*

We will require help from international organizations—and possibly the signing of mutual legal assistance treaties. We will also need information sharing among the various countries with whom we sign these treaties.

We will need capacity building, not only in terms of training, but also in the provision of modern equipment for developing databases that will enable the regulatory and enforcement agencies to stay ahead of the criminals. We will need grants and aid.

I believe that if we get these things we will be able to make some progress in the fight against money laundering.

*Jude C. Esiaka is acting director of the Foreign Operations Department in the Central Bank of Nigeria. He has worked in the Central Bank of Nigeria for 20 years and holds a degree in law as well as economics. He has also worked on issues related to money laundering and is a member of the National Committee on Financial Crimes.*

- **Francis B. Roberts**, Director, Banking, Bank of Sierra Leone, Sierra Leone

I take this opportunity to express our gratitude from the government of Sierra Leone and the Bank of Sierra Leone for this videoconference.

### *Response to AML/CFT*

Money laundering and terrorist financing activities are closely interwoven. These activities belong to a series of organized crimes that are now causing global concern; their relevance is not just limited to any particular geographic locality or jurisdiction.

In Sierra Leone the act of money laundering is not a common phenomenon. However, that does not mean it is nonexistent. Taking into account the prevailing state of affairs in the country and the available state apparatus, it is difficult to detect the prevalence of these serious crimes.

Money launderers tend to seek out areas where there are very low risks of detection, due to weak or ineffective programs or campaigns to fight money laundering.

Past governments have not taken steps to combat money laundering. There were periods when there was basically no government, and therefore no rule of law. The effect of this ugly situation was and still is felt today in every facet of Sierra Leone society, including human resources and technology.

On the return of democratic rule, the government was under much pressure to bring the state of instability that then existed to a speedy conclusion. Against this background, government saw the urgent need to bring back peace and stability at all costs. The speedy conclusion of the years of senseless civil war was topmost on its agenda. This notwithstanding, the government assumed a commitment to combat money laundering and terrorist financing, signing an agreement to establish a special court with the United Nations on January 16, 2002.

Under the Special Court Agreement Ratification Act, acts of money laundering were made an offense punishable with a fine or imprisonment, or both. This preliminary anti-money laundering legislation clearly indicates Sierra Leone's willingness to join the global action against all forms of money laundering and terrorist financing activities. Recent steps were taken by the Bank of Sierra Leone to issue money laundering regulations to all financial services providers in line with the Financial Action Task Force's 40 + 8 recommendations.

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

Anti-money laundering and anti-terrorist financing campaigns in Sierra Leone will not progress unless certain challenges are first met:

- A shortage in the supply of wealth, manpower, advanced training, and technical know-how to carry out successful anti-money laundering campaigns

- An underdeveloped network of effective and efficient means of communication
- Lack of funds to support the campaign and provide for training facilities for personnel engaged in the campaign against money laundering and terrorist financing activities
- Inadequate anti–money laundering awareness programs for the Sierra Leone society.

### *Needs for Technical Assistance*

A great deal of time, effort, and human resources are required for this challenging task. Assistance from international organizations is required in the following areas:

- There is a need to create a campaign to increase awareness of money laundering and terrorist financing activities in Sierra Leone. Support is also needed for anticorruption programs and a campaign for good governance.
- Logistics need to be provided for the authorities responsible for combating the problem. An uninterrupted communication network for easy access to documents and information must be constructed.
- Multilateral and bilateral cooperation between states and international organizations is needed. This will give investigative agencies the authority to trace, locate, freeze, and ultimately confiscate criminally derived assets.
- A very strong institutional and administrative foundation must be built to enhance the scope of operation of the investigative agencies. Substantial financial assistance will be required from donors to support awareness programs and premium facilities.

**Francis Benjamin Roberts** directs the Banking Department of the Bank of Sierra Leone, with overall responsibility for the general administration and operations of the department. Previously he was director of the Banking Supervision Department, overseeing financial institutions licensed under the Banking Act. He has also served as the internal auditor of the Central Bank, deputy director of the Banking Department, assistant head of the department, senior manager in the Banking Supervision division, manager of foreign exchange, and executive assistant in the Banking Department of the Bank of Sierra Leone. He is a graduate of the University of Sierra Leone, holding a BS in economics.



## The Urgency of Regional Collaboration

- **Mamadou Lamine Fofana**, Coordinator, Group for Inter-Governmental Action against Money Laundering in Africa

The mission of the Group for Inter-Governmental Action against Money Laundering in Africa (GIABA) is to fight money laundering and terrorism, to evaluate progress within the subregion, to ensure the membership of all the African countries in the group, and then to implement the 40+8 Recommendations made by the FATF and the relevant Conventions of the United Nation's system.

GIABA was created in 1999 under the auspices of ECOWAS—its membership composed of the 15 members of ECOWAS. International organizations like the World Bank, the IMF, the Commonwealth, the European Union, the African Development Bank, and Interpol took part as observers. GIABA has been receiving initial assistance from Great Britain to help the member States adopt an appropriate legislation to fight against money laundering and to implement conventions adopted by the organization.

We are very pleased that the IMF and the World Bank are involved in this issue, and we expect that they may fund a project under GIABA to better coordinate the fight against money laundering and terrorism in

the subregion. The aims of such a project would be to harmonize AML/CFT laws and the different legislations of the States members; to sensitize political decision makers to this issue; to train major government, private sector, and civil society players; and to help these countries co-ordinate their activities on money laundering under a common framework elaborated by GIABA.

There are similar initiatives in other regions of Africa. We are expecting that all these initiatives will be coordinated. This would be similar to current policies in Central America and Asia; that is an African FATF within the African Union and the NEPAD.

***Mamadou Lamine Fofana** has been coordinator of the Group for Inter-Governmental Action against Money Laundering in West Africa (GIABA) since June 2001 and national coordinator of Senegal's interministerial antidrug commission since 1996. He served previously as general secretary of the Superior Magistracy Council; assistant inspector general and then inspector general of judicial services; and deputy public prosecutor in the Dakar district court.*

*Mr. Fofana is a graduate of the Law faculty of Dakar University, and that of the High School of Magistracy. He is also member of several Senegalese government bodies, the Senegalese Committee for Human Rights, and the national commission for the prevention of HIV/AIDS. In 1998 he was recognized for his antidrug work by the Economic Community of West African States (ECOWAS). In 1993 he was made a member of the Senegalese National Order of Merit. In 1995 he was made a member of the French National Order of Merit. He is the author of two works on Human Rights: *The Citizen and the Police* (1993); and *The Universality of Human Rights and its Impact in Africa* (1998).*

- **Cecelia Akintomide**, Principal Legal Counsel, Legal Department, African Development Bank

The African Development Bank (AfDB) recognizes that money laundering and the financing of terrorist activities are counterproductive to developmental initiatives. However, we are also conscious of the fact that our interventions in this arena have to be consistent with our mandate and within our capacity.

Given the importance of this issue, the president of the AfDB, Omar Kabbaj, constituted a high level task force to advise the president of the AfDB group on implementation of anti-money laundering and terrorist financing measures. In February of this year we acquired observer status in the Financial Action Task Force (FATF), and we attend their meetings.

We have incorporated in our financing documentation a representation that our borrowers are not engaged directly in money laundering or the provision of financial or related facilities in support of terrorist activities. In addition, we require a representation that the proceeds of any financing from the AfDB shall not be used directly or indirectly for those types of activities. We are also in the process of introducing certificates that will be issued by our correspondent banks that will confirm that they are not knowingly involved in money laundering activities, or having dealings with proscribed terrorist organizations.

The AfDB looks at its role from three perspectives. First, we need to ensure that our resources are not being applied directly or indirectly to support or otherwise further money laundering or terrorist activities. Second, in connection with our vision of being a knowledge and information center in Africa, we see a role—both internally and in original member countries—in highlighting the antidevelopmental effect of these activities. In addition, we envisage providing technical assistance to our regional member countries.

The bank has begun implementing certain governance-related operations. We also intend to incorporate anti-money laundering and terrorist financing measures as part of our law reform initiative and financial sector and judicial reform initiatives.

With regard to the New Partnership for Africa's Development (NEPAD), the African heads of state have accorded the AfDB the lead role in infrastructure and banking and finance standards development. In May, the AfDB group addressed a NEPAD meeting in Ethiopia, making recommendations for measures that should be taken by member countries to combat money laundering and the financing of terrorist activities.

The AfDB intends to help disseminate information to the relevant government agencies in the regional member countries on various standards—including those related to money laundering—and to support initiatives to incorporate those standards into legislation. The bank will also act as an interface between the regional member countries and agencies such as the FATF. We have already made a recommendation for the adoption of the FATF 40 + 8 recommendations.

***Cecilia Akintomide** serves in the African Development Bank as the principal counsel for finance and administrative matters and principal counsel for operations, providing legal services for the bank's public and private sector operations. She previously was an associate in the Business Reorganization Department of Weil, Gotshal in New York. She*

*worked on Chapter 11 reorganizations and out-of-court restructuring of large U.S. corporations and multinationals.*

*Ms. Akintomide holds a master's of law (LL.M) in corporate finance, creditors rights, and International business transactions from the University of Pennsylvania and the University of Miami. She was a student of the Nigerian law school where she obtained barrister of law (B.L) and bachelor of law (LL.B) degrees.*

- **Mohamed Bourenane**, Principal Investment Economist, African Development Bank

I would like first to thank the World Bank for organizing this gathering.

From the operational side at AfDB, our objectives are three: to ensure that we in the bank and our partners are fully protected through our operations, to sensitize and make our regional member countries and partners fully aware of the consequences and the risks that money laundering may have on their activity, and to assist in building local capacity to better address the evolving money laundering practices both at national and regional level

We are approaching this issue by working closely with ECOWAS. We are in the process of discussing with the countries and bodies represented in ECOWAS how we can develop concrete mechanisms to help perform a number of tasks:

- To establish a network for exchange of information and due diligence
- To train —first bank staff, but also officials, experts, and professionals working in the field—in anti–money laundering matters
- To assist regional member countries and regional bodies in addressing money laundering practices.

Money laundering has to be seen as a problem of governance. It is essential to put it in this framework. And when we talk about governance, it is partly a problem of corporate governance.

The fight against money laundering is also a development program. If we say that it is a development program, several implications follow. Anti–money laundering efforts should be shared by whole societies, or they will not go far. There is a need for clear, private-public partner-

ships in this field. Without these partnerships one cannot move forward, especially on our continent.

There is a need for clear, open, and strong collaboration between the Bretton Woods institutions and regional development banks like ours. I wish to see mechanisms for collaboration—like those between the World Bank and the Asian Development Bank—duplicated and developed for the African Development Bank.

**Mohamed Bourenane** has performed a number of duties since he joined the African Development Bank in 1992. He worked as a senior socio-economist in country departments, principal cooperation officer in charge of several bilateral and multilateral portfolios, and principal planning economist in charge of regional and international development economic issues, before joining the Private Sector Department as a principal investment economist. He is now in charge of the Technical Support Services Division in the Private Sector Department. He represents the Bank in FATF activities.

Before joining the AfDB, he was a professor and visiting professor at several African and European Universities; a research fellow; board member of two Algerian quasi-public firms; and headed the Department of Agribusiness in the Algerian National Centre for Studies and Analysis for Strategic Planning from 1969 to 1979.

He holds a doctorate in economics from the University of Paris VII, as well as a degree in economics and sociology and a diploma in demography from the University of Algiers.



## Open Discussion

During the open discussion period, several themes emerged with particular focus. These included international mutual cooperation, the role of international organizations, and the business policy of the African Development Bank (AfDB).

### *International Mutual Cooperation*

Several participants emphasized the importance of international mutual cooperation.

Mutual cooperation in legal matters has sometimes been lacking—for instance, in the enforcement of extradition treaties. Developed countries, in some cases, have declined to divulge information that may be needed for prosecutions in developing countries. On the other hand, developing nations sometimes circumvent international conventions and treaties.

Money laundering often involves embezzlement by corrupt political leaders and others in positions of power. Once embezzled, funds are siphoned out to banks in developed countries. Here, too, a lack of international cooperation impedes efforts to prevent abuses. Asked

how the World Bank could help developing countries prevent siphoning, the Bank's representatives stated that the Bank's primary AML/CFT role was to help countries put in place the regimes necessary to combat money laundering which can ultimately help fight corruption in government.

Financial crime, particularly advance fee fraud, is another form of money laundering that is abetted by failures of mutual cooperation. Participants observed that developed nations often fail to address these issues on their end.

More than a trillion dollars are laundered globally each year, within and between developed and developing countries. Money launderers seek out weak financial systems with weak enforcement of spotty laws and regulations. Assistance in building a stronger legal system in many emerging markets is an important way to combat the problem. And undergoing a national financial sector assessment is an excellent way to identify weak spots in a country's anti-money laundering regime.

The World Bank and the IMF has stressed the use of the new methodology for assessing compliance with the recommendations of the international Financial Action Task Force—as well as with related anti-money laundering supervisory principles for banking, insurance, and securities.

### *The Role of International Organizations*

Participants asked how the World Bank, IMF, and AfDB might help in setting up a financial intelligence unit (FIU) and making it as efficient as possible.

The first step in the normal sequence is awareness-raising campaign to catch the attention of senior government officials and policymakers and make them aware of the immediacy of the problem and the importance of taking action. Once the environment is ripe for action, the key priority is the passage of laws to criminalize money laundering. The same laws might create the legal basis for an FIU. In a subsequent implementation phase, financial supervisors would be trained and financial intelligence strengthened.

The World Bank is willing to work with countries individually and regionally to raise awareness of the issues, either directly or through partners, provide technical assistance to help draft laws and regulations, and establish effective FIUs. The Bank encourages countries interested in moving forward in this area to let the Bank representatives in their countries know what types of assistance might be most beneficial.

The AfDB staged an awareness seminar in May at its annual meeting. In the near future, the institution will be assessing the training needs of individual member countries to determine how those needs might be integrated into its overall training programs. The AfDB is trying to fill the gap that exists between some African countries and their counterparts at the international level.

### *The Business Policy of the African Development Bank*

Several participants asked how the AfDB would respond if a country developed a money laundering problem after putting in place a full complement of laws and regulations to combat the problem. What if the country had adopted laws and regulations but failed to implement them fully? What if it failed to carry out some of the recommendations of the FATF or United Nations regarding money laundering and the financing of terrorist activities?

The AfDB representative responded that the AfDB had not adopted specific sanctions on money laundering or the financing of terrorist activities. However, the existence of money laundering would reflect poorly on the country's governance reputation and would be taken into account in decisions about future lending in the country. A thriving money laundering industry also has direct implications for private-sector operations, affecting risk reviews and the country's investment ratings.



## Wrap-up

- Rapporteur: **John McDowell**, Lead Anti-Money Laundering Specialist, Financial Market Integrity, World Bank

Over the last three hours we talked about many of the things that you have done already to develop your AML/CFT regimes. These impressive accomplishments reveal excellent progress toward combating money laundering and the financing of terrorism. However, along with those accomplishments you will need to implement many new laws and rules. That will require a huge amount of training and technical assistance. The World Bank is in a position, in some cases, to assist client countries in developing their regimes.

Let me review the top items that I heard coming out of the dialogue. There seems to be a great need for an awareness campaign in your region to convince legislators and the public of the dangers of money laundering and terrorist financing. This is the number one item if you are in the beginning stages of developing an anti-money laundering and anti-terrorist financing regime.

The World Bank and IMF can help you with developing a legal framework for a money laundering regime. We can help in drafting laws that meet international standards—the FATF 40 + 8. Training and technical

assistance is another area where we can assist. We are currently delivering a money laundering seminar with IMF in Latin America, and we will have another in Europe and Central Asia in December. I can visualize a seminar for your region along the same lines.

Another issue is information sharing. One way to do that quickly is to work closely to strengthen GIABA and with your regional partners to share information at meetings, developing training sessions where you can share your challenges, your successes, and some of the problems you have had in putting together money laundering regimes.



*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, bank regulatory and compliance matters.*

*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:**

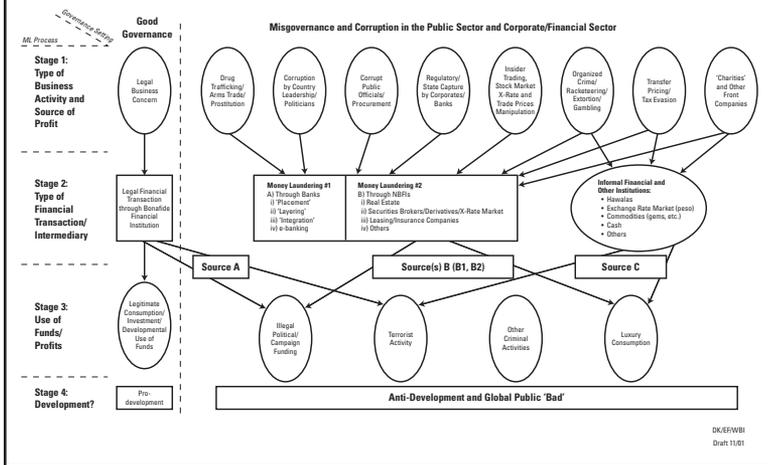
Public, Private, and Financial Sector Governance  
Matters Enormously to a Diagnosis and Understanding  
of the Causes and Consequences of Money Laundering

Daniel Kaufmann, World Bank Institute  
[www.worldbank.org/wbi/governance/](http://www.worldbank.org/wbi/governance/)

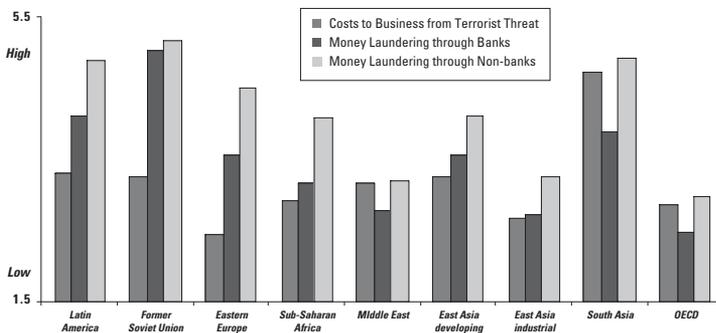
Background Empirical Materials for Discussion

*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



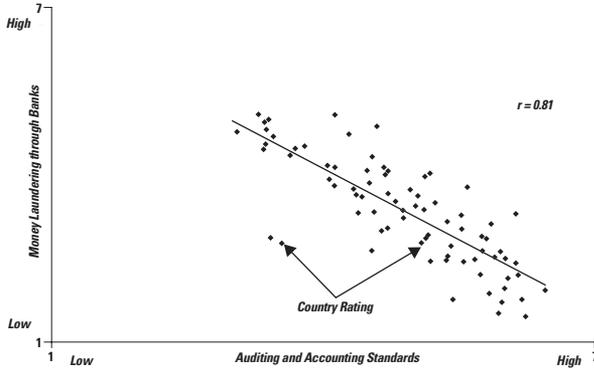
## Money Laundering and Terrorism — 2002 Preliminary Regional Averages Based on Reports from Firms in 80 Countries



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.

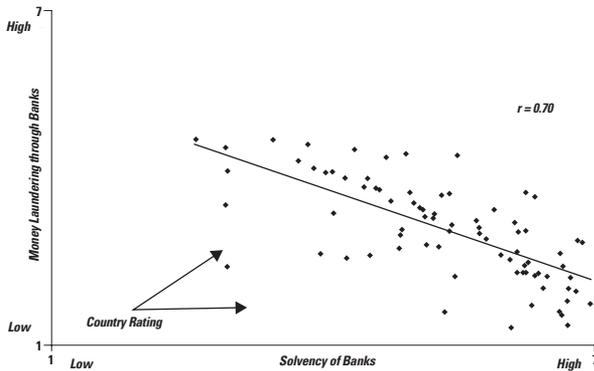
### Money Laundering (through Banks) and Auditing and Accounting Standards



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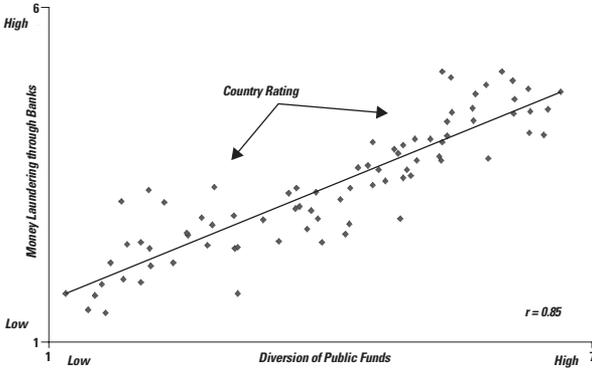
### Money Laundering (through Banks) and Solvency of Banks



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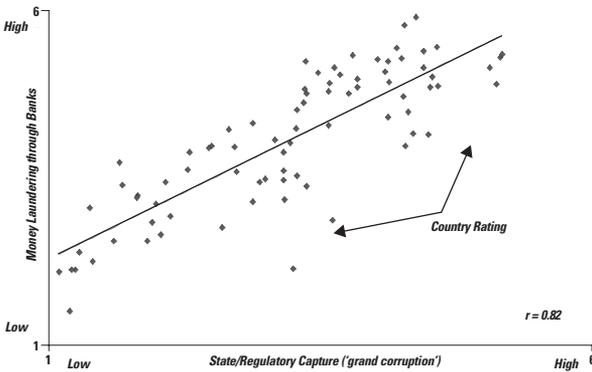
### Money Laundering (through Banks) and Diversion of Public Funds



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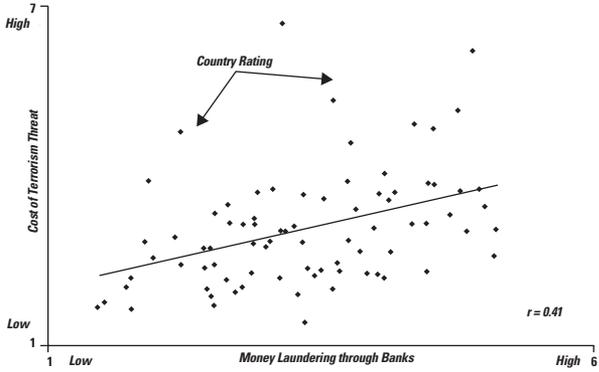
### Non-Bank Money Laundering and Capture of the State



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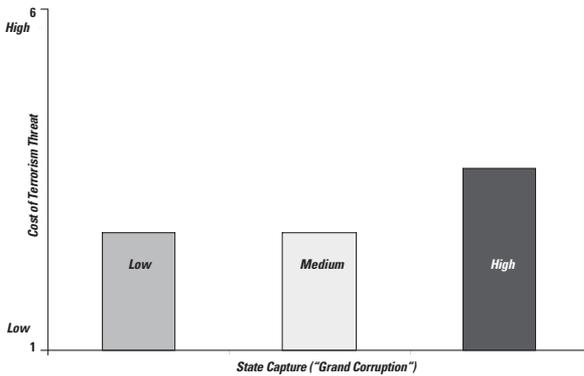
### Cost of Terrorism Threat and Money Laundering (through Banks)



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Source: Global Competitiveness Survey 2000.

### Cost of Terrorism Threat and State Capture ("Grand Corruption")



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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