Anti-Money Laundering and Combating the Financing of Terrorism

Regional Videoconference: South Asia Region—Bangladesh, Bhutan, and Nepal
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Sponsored by the World Bank Financial Sector and the World Bank Institute in partnership with the International Monetary Fund and the South Asia Region of the World Bank
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A Worldwide Challenge…

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

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

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

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

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

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

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

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

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

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

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

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

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“Anti–Money Laundering and Combating the Financing of Terrorism,” a World Bank Global Dialogue Series, was inaugurated in January 2002. Since then, policy dialogues have been held with countries in the Europe and Central Asia, Latin America and the Caribbean, and Africa. The sixth and seventh dialogues in the series covered South Asia. This booklet summarizes the seventh policy dialogue. Held on October 24, 2002, it featured experts from Bangladesh, Bhutan, and Nepal.

The Global Dialogue was a live videoconference conducted over the World Bank's Global Distance Learning Network. Two hours in length, it involved participants from client countries who represented monetary authorities, central banks, ministries of finance, ministries of justice, and other institutions.

The event provided a unique opportunity for three South Asian countries, the World Bank, the International Monetary Fund, the Asia/Pacific Group on Money Laundering, and the Asian Development Bank to discuss the challenges they face in combating money laundering and the financing of terrorism. The participants learned about progress in each country and identified the type of assistance they need to make further progress. Moreover, they recognized the 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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• Joseph Del Mar Pernia, Acting Director, Finance and Private Sector Development, South Asia Region, World Bank

Welcome and Introduction

• Joseph Del Mar Pernia

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

• Marilou Jane D. Uy, Director, Financial Sector Operations and Policies, and Chair, Financial Sector Board, World Bank.
• Michael Moore, Deputy Division Chief, Special Financial Supervisory Issues Division, Monetary and Exchange Affairs Department, International Monetary Fund

Governance in the Financial Sector—The Broader Context of Money Laundering and Terrorist Financing

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

Country Presentations—How Have Governments Responded?

• Allah Malik Kazemi, Deputy Governor, Bangladesh Bank
The representatives from Bangladesh, Bhutan, and Nepal were asked to address the following issues:

- What have been the country’s responses to money laundering and terrorist financing?
- What institutional arrangements have been made to combat money laundering and terrorist financing?
- 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—Practitioners’ Views of Implementation Challenges for Regulators

- Rick McDonell, Head, Secretariat, Asia/Pacific Group on Money Laundering
- Motoo Noguchi, Counsel, Office of the General Counsel, Asian Development Bank

Open Discussions on Challenges for Implementation

Wrap-up

- John McDowell, Lead Anti-Money Laundering Specialist, Financial Market Integrity Department, World Bank
The dialogue provided an opportunity for the participating countries and organizations to inform the group of the status of their anti-money laundering regimes and efforts to combat the financing of terrorism. Participants raised the following issues, needs, and possibilities:

**World Bank**

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

**IMF**
• World Bank and IMF are working closely together and what was said by the World Bank applies to the IMF as well because it is a joint initiative
• IMF works very closely and collectively with the World Bank and the FATF, as well as the FAFT-style regional bodies
• A questionnaire was developed and now circulating to IMF member countries. It focuses on the legislation and framework for AML/CFT. About 40 countries have already responded to the questionnaire, and a progress report is available on the IMF website

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

**Bangladesh**
• Awareness programs and training activities are required for government officials, the private sector and the public
• While effective AML legislation is required, policies must recognize that strict and effective legislation may push money laundering and terrorist financing activities outside of regulated financial sector. Informal financial institutions and players must also be addressed
• There is a need to strengthen existing capacities and expertise available for detecting, preventing and prosecuting money laundering and terrorist financing activities

*Anti-Money Laundering and Combating the Financing of Terrorism*
• Capacity building exercises need to include: (1) Setting up FIU and providing it with adequate technology and infrastructure to detect and track money laundering and terrorist financing activities, and; (2) Assisting financial institutions in the country, particularly the larger banks to strengthen their AML/CFT capacities

• There is need for greater regional cooperation in expediting mutual legal assistance and extradition in the prosecution of money laundering and terrorist financing cases

Bhutan
• Training for banking supervisors and for financial institutions professionals
• Building effective regulatory and supervisory framework to monitor complex transactions
• Creating appropriate institutions, infrastructure and expertise for the effective implementation of AML/CFT legislation
• Enhancing regional and international cooperation, and building a network to share and exchange information
• Facilitating a multi-sectoral approach in coordinating AML/CFT efforts

Nepal
• Need for training and co-operations among the domestic agencies as well as international agencies
• The importance of legalizing the informal sector transactions and bringing it to the domain of the regulated banking sector
• Establishing coordination with other FIUs and international agencies

APG
• APG’s role: facilitate the adoption, implementation and enforcement of the internationally accepted FATF 40 + 8 Recommendation; assist jurisdictions in the region to enact laws dealing with the proceeds of crime, mutual legal assistance, confiscation, forfeiture and extradition; and help set up systems for reporting and investigating suspicious transactions and establish financial intelligence units
• Enhance the collaborative efforts in coordinating and providing TA
• Sources and typologies of money laundering vary considerably throughout the region
• Considerable variance of AML/CFT regimes across countries
• Institutional capacity to implement anti-money laundering and anti-terrorist financing laws is inadequate in many countries in the region, making the provision of training and technical assistance critical
• Need to keep up with and respond to changes in money laundering cleansing techniques including the apparently widespread use of alternative remittance and underground banking systems
• Need to keep abreast of and provide input into the current review of the FATF 40 Recommendations
• Improving information sharing between countries
• Cascading and sequencing provision of TA
• More consistent collaboration with IMF/World Bank
• APG Special Working Group on Informal Remittance System is carrying out a detailed study

ADB
• ADB’s three modalities that are available for assisting member countries in establishing and strengthening their legal and financial frameworks to combat money laundering and financing terrorism. They are: policy dialogue, loans and technical assistance grant
• The economic research report findings on the negative effects of money laundering on economic development: money laundering undermines domestic capital formation, depletes its growth and diverts capital away from development

Wrap-up by John McDowell
• The importance of sequencing TA provision and updating the countries on new typologies of money laundering and terrorist financing activities
• Developing awareness raising programs for the senior government officials and general public
• Tailoring a legal and regulatory framework on AML/CFT to regional needs
• Capacity building for bank regulators
• Training for private sector professionals, prosecutors and judges
• Need for FIU development and hardware and software support
• Cash based economy
• Better information sharing and coordination among countries
• Addressing the issue of alternative remittance systems, cross-border transfers and smuggling
Welcome and Introduction

• **Joseph Del Mar Pernia**, Acting Director, Finance and Private Sector Development, South Asia Region, World Bank

Let me start by welcoming everyone to the first South Asia Regional Dialogue on combatting money laundering and terrorist financing.

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

Bangladesh, Bhutan, and Nepal reflect diverse experiences with fighting money laundering and terrorist financing. This can only serve to enrich our discussion and exchange of ideas. For example, Bangladesh enacted its Anti-Money Laundering Act in April this year while Bhutan and Nepal have yet to do so.
Our aim today is to engage in a candid dialogue on the challenges countries face so that the assistance provided by the World Bank and its partner institutions will be appropriately targeted and effective.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

• Michael Moore, Deputy Division Chief, Special Financial Supervisory Issues Division, Monetary and Exchange Affairs Department, International Monetary Fund

Since September 11, 2001, money laundering and terrorist financing have taken on new importance in the programs and efforts of the IMF
and World Bank. In addition to working closely and collectively with the World Bank, the FATF, and the FATF-style regional bodies (including APG and the pilot program mentioned earlier), the IMF has begun some initiatives of its own.

The IMF has developed a questionnaire about anti–money laundering legislation and other aspects of the legal framework related to money laundering and terrorist financing. We are circulating the questionnaire to our member countries over the next three years period. About 40 countries have already responded.

We are happy that the IMF, World Bank, and APG can carry out one of the first assessments of the methodology statement endorsed by the FATF. We look forward to the 12-month pilot period, and to the participation by the FAFT-style regional bodies. Most important, we look forward to participation by the countries of the region.

Fighting money laundering and terrorist financing will remain important for the IMF and the World Bank as we move ahead, and certainly will be a major thrust of our work over the next 12 months.

Michael Moore is deputy division chief for the IMF’s Special Supervisory Issues Division, which was created in January 2002 to lead the IMF’s policy and operational work on money laundering and offshore financial centers. Mr. Moore has worked at the IMF since 1998, where he has advised on financial system soundness. Before joining the IMF, Mr. Moore worked as a banking analyst for the Federal Reserve System in the United States and for the World Bank.

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

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

Even though substantial amounts of work have been done in the money laundering field, the focus until recently has been on particular banking institutions and a few countries. Since last September 11, however, the work has broadened to become a global concern. Many challenges and issues are still being debated.
Yet the challenge of money laundering is still viewed within a rather narrow context, one that still tends to focus narrowly on the banking system, and divorced from the links of poor governance and corruption in the public and private sectors. Here we suggest that it is important to approach the diagnostic, analysis and actions in the Anti-Money Laundering (AML) challenge within a much broader governance context. To provide a brief synthesis of key aspects and linkages within such broader governance framework, we present the “laundromat” AML chart below (and in slide 2 of the attached presentation).

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

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

The second row (stage 2) of the schematic chart illustrates the types of financial institutions that may be involved in money laundering activities. First, we note the distinction between banks and other formal financial institutions. While the bulk of money laundering in many countries still tend to use as a conduit the formal baking system,
Misgovernance, Money Laundering, and Terrorism

Good Governance

Misgovernance and Corruption in the Public Sector and Corporate/Financial Sector

Stage 1: Type of Business Activity and Source of Profit
- Legal Business Concern
- Drug Trafficking/Arms Trade/Prostitution
- Corruption by Country Leadership/Politicians
- Corrupt Public Officials/Procurement
- Regulatory/State Capture by Corporates/Banks
- Insider Trading, Stock Market X-Rate and Trade Prices Manipulation
- Organized Crime/Racketeering/Extortion/Gambling
- Transfer Pricing/Tax Evasion
- ‘Charities’ and Other Front Companies

Stage 2: Type of Financial Transaction/Intermediary
- Legal Financial Transaction through Bonafide Financial Institution
- ‘Placement’
- ‘Layering’
- ‘Integration’
- e-banking

Stage 3: Use of Funds/Profits
- Legitimate Consumption/Investment/Developmental Use of Funds
- Illegal Political/Campaign Funding
- Terrorist Activity
- Other Criminal Activities
- Luxury Consumption

Stage 4: Development?
- Anti-Development and Global Public ‘Bad’
money laundering through non-banking financial institutions (NBFIs) appears to be growing in importance—through real estate transactions, security brokers, derivatives, the exchange rate market, leasing insurance companies, and others.

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

Laundered money can be put to many uses (stage 3 in row 3 in the schematic chart)—among them one possible use, in some settings, is terrorist activity. Yet terrorist financing can also be generated by quasi-legal activities, from state-sponsorship, and from contributions from individuals that may or may not involve laundering ill-gotten funds in the first place. Conversely, the bulk of laundered funds is not utilized for terrorist financing. In many cases, the funds and profits from money laundering can have significant political and developmental costs through their relationship to legal, political, and campaign financing, luxury consumption, and other criminal activities. By contrast, when financial activity is legal it is quite likely to contribute to growth and development.

Part of the challenge in not being able to probe in more analytical depth on money laundering worldwide was due to the lack of empirical evidence on the problem. In part, this is being addressed through surveys that probe into this issue. Slide 3 in the attached presentation depict the regional averages of money laundering and terrorism based on 2002 surveys of enterprises in 80 countries. The chart measures the reported costs of terrorist threats to businesses. It also shows money laundering through the banking system and through the non-banking system. We see that there are very significant variations across regions, both in the average levels and in the relative importance of each dimension of the problem of money laundering through banks vs. non-banks, and relative to the cost of the perceived terrorist threat as reported by the enterprise sector. In particular, it is noteworthy the
reported differences in the relative importance of money laundering through the banking system as compared with the non-banking system. In some regions money laundering through the nonbanking system is reported to be much more significant, while in others the challenges are similar in both dimensions (slide 3). These are merely regional averages; the differences within specific countries can be even more pronounced.

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

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

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

• It is crucial to understand and diagnose the main manifestations of misgovernance and corruption in both the public and private sector

South Asia Region: Bangladesh, Bhutan, and Nepal

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in order to be able to develop an effective, comprehensive national program to fight money laundering. Country specificity is key.

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

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

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

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

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

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

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

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

- **M. Allah Malik Kazemi**, Deputy Governor, Bangladesh Bank, Bangladesh

Money laundering associated with crime, corruption, and financing of terrorist activities requires strong preventive and punitive responses. These activities are serious threats to the rule of law and good governance. For a developing country like Bangladesh, they also pose major costs for development in terms of lost revenues, misused public funds, and inward remittances diverted away in hawala or hundi transactions.

Response to Money Laundering and Terrorist Financing

The Bangladesh authorities have consistently and robustly discouraged these activities. Banking laws in Bangladesh require banks to maintain transaction records and books of accounts for periods prescribed by the central bank, discouraging anonymous accounts and transactions. Controls on cross-border flows of funds, cash balances, and bullion—maintained on considerations not solely of money laundering—have served to prevent the use of Bangladesh’s financial system as a host or conduit in the routes of global traffic in laundered funds.
Bangladesh is a signatory of the 1988 Vienna convention calling for fighting money laundering and enacting laws to combat it. The country has regularly and actively participated in global and regional dialogues and initiatives for combating money laundering and terrorist financing.

The enactment in April 2002 of a law to prevent and punish money laundering has given a powerful boost to anti–money laundering vigilance in Bangladesh. The law identifies the illegal acquisition (or aiding and abetting such illegal acquisition) of monetary or other assets, as well as the transfer, transformation, or concealment of such assets, as offenses punishable with prison sentences from six months to seven years, and with fines up to twice the amount laundered.

Bangladesh Bank, the central bank of Bangladesh, has been entrusted with the responsibility of implementing and enforcing the Money Laundering Prevention Act. It has been empowered to authorize investigations and to lodge court petitions for the seizure or freezing of assets involved in money laundering and to investigate and try money laundering offences. The law mandates that banks, financial institutions, and other financial intermediaries must maintain customer identification and transaction records for at least five years. They must report suspicious or unusual transactions to Bangladesh Bank and furnish such records and information as the bank may require to identify, investigate and prosecute money laundering offences. The law also empowers the government to conclude agreements with foreign jurisdictions for cooperation in investigating and trying money laundering cases.

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

Pursuant to the new act, Bangladesh Bank has issued guidelines to banks and financial institutions about the minimum requirements for customer identification and for identification and reporting of unusual or suspicious transactions. Banks and financial institutions have set up their own internal reporting and monitoring procedures accordingly. Training for employees of local banks and financial institutions in developing and adopting these internal procedures was arranged with the help of foreign banks operating in Bangladesh that were familiar with such procedures.
Upon receiving reports of suspicious or unusual transactions or of specific money laundering offenses—either from banks and financial institutions or from onsite examinations by Bangladesh Bank’s own inspectors—the Anti-Money Laundering Department of Bangladesh Bank makes its own preliminary investigation for prima facie evidence of a money laundering offense. Where sufficient prima facie evidence exists, the matter is referred to the Bureau of Anti-Corruption or the police, authorizing them to obtain a court order for formal enquiry. If necessary, the assets in question can be seized or frozen, and the case may proceed to trial and punishment under the act.

Key Challenges in Combating Money Laundering and Terrorist Financing

Fortunately, the key challenges for Bangladesh in combating money laundering or terrorist financing are not those of coping with a high ambient level of such crimes. Bangladesh is not on any major route for global traffic in laundered money. The major challenge lies in quickly building up strong capabilities for the identification and investigation of money laundering offenses.

For the Anti–Money Laundering Department of Bangladesh Bank, setting up a financial intelligence unit with the capability of processing and collating large volumes of suspicious and unusual transactions data is a priority.

For the Bureau of Anti-Corruption and the police department, the challenge is to quickly build up expertise in tracking the complex transaction chains typically involved in money laundering.

Banks and financial institutions need continuous training and awareness-raising to identify the complex concealment processes adopted by money launderers to give the appearance of legitimacy. The nationalized banks with large branch networks need information technology upgrades to track the same transaction chains efficiently.

Needs for Technical Assistance

International organizations may provide financial and technical support useful in setting up an efficient information technology–based financial intelligence unit in the Anti–Money Laundering Department of the
Bangladesh Bank. Such support would build up the central bank’s capacity to collate and analyze large volumes of financial transaction information. Support for information-technology upgrades in larger banks would enable them to better collate interbranch data to identify chains of suspicious transactions. Training support for officials of the Anti–Money Laundering Department and for investigators in the Bureau of Anti-Corruption and the police department would also be important.

Bangladesh is not and does not intend to be a host country for laundered money or terrorism finance, as signaled strongly by the recent enactment of the Money Laundering Prevention Act. It is important for Bangladesh that outflows of illegal funds from Bangladesh do not find ready hosts elsewhere, and that the hawala and hundi operators abroad do not funnel away remittances of Bangladeshi workers abroad. Strengthening anti–money laundering surveillance abroad and imposing customer identification and transaction record-keeping requirements on hawala and hundi operators in countries that host Bangladeshi workers would be beneficial and important for Bangladesh.

**M. Allah Malik Kazemi** is a central banker who has spent his entire career at Bangladesh Bank. He was promoted to his current post as deputy governor of the bank early this year. He was involved in drafting the anti–money laundering bill that was passed by parliament in April 2002.

- **Karma Tshiteem**, Deputy Secretary, Policy and Planning Division, Ministry of Finance, Bhutan

Bhutan has a very small financial system comprising of two money deposit banks, one development bank, one insurance corporation, and one pension board. Restrictions on capital flows are added barriers to money laundering and terrorist financing activities. The scope for money laundering on a large scale therefore appears to be limited. However, the possibility that the financial system may be abused cannot be ruled out entirely. Accordingly, the Royal Government is fully committed to international efforts to combat money laundering and terrorist financing.

**Response to Money Laundering and Terrorist Financing**

As a United Nations member, Bhutan has ratified United Nations Security Council resolutions 1267 (1999) relating to the freezing of funds and other assets of the Taliban and 1373 (2001) relating to terror-
ism. In November, 2001, Bhutan became a signatory to the International Convention for the Suppression of the Financing of Terrorism concerning offenses relating to the financing, transfer, or collection of funds with the intention or knowledge that any part thereof may be used to carry out terrorist activities.

To date there is no indication that financial transactions have been carried out in the Bhutanese financial system by any of the terrorist organizations or persons listed in U.S. Executive Order 13224. Nor is there any indication of money laundering through the financial system in Bhutan. These are new issues to Bhutan.

The Royal Monetary Authority of Bhutan (RMA), as the regulatory body for the financial institutions, has taken the following initiatives to combat money laundering and terrorism financing:

- It has issued guidelines on anti–money laundering and terrorism financing to all the financial institutions in Bhutan.

- It has proposed a strategic national plan on combating money laundering and terrorism financing. The plan would be developed in close consultation and collaboration with relevant government agencies.

**Institutional Arrangements to Detect, Investigate, and Prosecute Suspicious Transactions**

Combating money laundering and terrorist financing is new to Bhutan. As such, new institutions and expertise are necessary to stem the growth of these activities. Accordingly, the Royal Government of Bhutan is considering the following institutional mechanisms:

- Initiation of a high-level coordination meeting between the RMA and concerned government agencies such as the Ministry of Finance, the Ministry of Foreign Affairs, the Ministry of Health and Education, the Department of Revenue and Customs, and the Royal Bhutan Police to formulate a strategic national program—spearheaded by the RMA—to combat money laundering and terrorism financing.

- Creation of a financial intelligence unit under the RMA to detect any traces of financial transactions being carried out by terrorist organizations within the Bhutanese financial sector.
• Training of bank examiners to enable them to detect such transactions and activities while undertaking their regular inspection of the books of financial institutions.

• Exploring possible links with organizations in other countries that are spearheading anti-money laundering efforts. The purpose of the links would be to share information and coordinate efforts.

Key Challenges in Combating Money Laundering and Terrorist Financing

Lack of expertise in this field and inadequate infrastructure facilities are the major obstacles for the central bank. New systems, institutions, and the necessary legal framework need to be developed. Since money laundering and terrorist financing are mainly transnational issues, intercountry cooperation needs to be enhanced. There is also a need to raise awareness on the subject. Unless progress can be made in addressing all these gaps, the likelihood of gains being made against relatively new and sophisticated activities appears to be low. On the other hand, countries like Bhutan have neither the financial nor technical resources to deal with all these needs on their own. They require assistance.

The possibilities for money laundering and terrorist financing, particularly in an increasingly globalized world, are probably only limited by the imagination. Identifying potential areas of operation or innovative forms for such illegal transactions is another area where expertise would be useful.

In the case of Bhutan, the following activities could be related or have the potential to be related to money laundering and terrorist financing:

• Fronting of trade licenses and business activities

• Gold and silver smuggling (duty-free importation of 50 grams of gold is allowed under Bhutanese law)

• Carrying large amounts of foreign currency (only US$5,000 is allowed upon entry into or exit from Bhutan)

• Counterfeiting
There is no conclusive evidence to suggest that such activities are being used for terrorist financing or as avenues for money laundering. However, the trend of some of these activities—particularly smuggling and carrying large amounts of foreign currency—appears to be on the rise. This is a cause for concern. Fortunately, given the low level of corruption, the possibility of financial sector abuse for such purposes is currently remote in Bhutan. It cannot be ruled out in the future, however, so it would be prudent to put in place mechanisms to check such developments. Again, some expertise and in-depth study would be useful to help the country catalog the potential new avenues for money laundering and terrorist financing, as well as to develop necessary surveillance and detection systems.

The rapid development of e-banking and e-commerce pose challenges for the future. These will be more pronounced in developing countries like Bhutan as banks introduce services while regulatory bodies still lack the capacity to monitor highly sophisticated users—as seen in the case of some terrorist organizations. There is a need to begin to address the possibility of abuse through such systems. The capacities of regulatory bodies must also be developed to ensure that surveillance systems can effectively monitor and detect money laundering and terrorist financing transactions.

**Needs for Technical Assistance**

Because money laundering and terrorist financing are new issues for Bhutan, there is a total absence of experience and expertise in dealing with such developments. While the shell of an institutional framework for combating these activities is under consideration, it will not ensure effectiveness. For this, expertise and assistance will be required in the areas highlighted above. Support for human resource development will be needed, as well as the establishment of networks among countries to share information and coordinate efforts.

These areas of need are probably common to developing countries. The World Bank and the IMF appear to be well poised to address the expertise gaps in the areas mentioned earlier, as well as to help establish networks for coordinating anti-money laundering efforts and the sharing of information and experience. Best practices could be tailored usefully to the situation of individual countries, in collaboration with relevant government agencies—as in the formulation of legal
frameworks, rules and regulations, new institutional frameworks, and so on.

The Royal Government remains fully committed to the effort.

*Karma Tshiteem* has been deputy secretary in the Policy and Planning Division of Bhutan’s Ministry of Finance since April 2000. His division is responsible for formulating fiscal policies and coordinating them with the monetary authorities and the planning commission. During this period, Mr. Tshiteem also worked as an intern in the finance and private sector development unit of the South Asia Region at the World Bank (August 2000–May 2001).

He previously held a number of positions in the National Budget and Aid Coordination Division of the Ministry of Finance. After starting as an assistant program officer in the Public Enterprise Section in 1989, he was transferred to the Ministry of Agriculture in 1991 to handle budget and accounts.

Upon returning from studies in 1996, Mr. Tshiteem worked as a program officer in charge of all multilateral assistance to Bhutan in the National Budget and Aid Coordination Division of the Ministry of Finance. From 1998 to April 2000, he worked as the head of the aid coordination section. His responsibilities included debt management for the Royal Government.

Mr. Tshiteem holds MBA and BA degrees.

- **Krishna Bahadur Manandhar**, Executive Director, Foreign Exchange Department, Nepal Rastra Bank, Nepal

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

There is little possibility of the traditional type of money laundering through official channels in Nepal. Inflows and outflows of foreign exchange are governed by the Foreign Exchange Regulation Act of 1962 (as amended) and other rules. Capital accounts have not been made convertible. While current accounts can be made convertible, the movements of foreign exchange should be in accordance with the Foreign Exchange Regulation Act and foreign exchange rules:

- Though there is no restriction in bringing foreign currency into the kingdom, those carrying more than US$2,000 in cash must declare it at the entry point.
- No one can bring in foreign capital, even in the form of a loan or investment, without prior approval of Nepal Rastra Bank.
• Only bona fide foreign exchange earners (exporters and individuals) having legitimate sources of earnings are allowed to open foreign currency accounts in Nepalese commercial banks.

• Nepalese commercial banks and other deposit-taking institutions require identity of the customers in opening the account, even in the case of a domestic currency account.

Though the above provisions may be enough to mitigate traditional types of money laundering, Nepal is keen to address the possibility of nontraditional money laundering and terrorist financing. For that reason, Nepal joined the Asia/Pacific Group on Money Laundering in March 2002 and has already prepared a draft act on anti-money laundering that is due to be enacted in the near future.

The main characteristics of the anti-money laundering act, prepared in light of the FATF 40 + 8 Recommendations, are as follows:

• Offences under the act include illegal arms sales, illegal drug trafficking, trafficking in women, and corruption.

• The agencies involved in implementing the act are:

  – The Anti–Money Laundering Policy Formulation Committee, under the chairmanship of the prime minister. Its main functions are to make recommendations to His Majesty’s Government of Nepal to formulate appropriate anti-money laundering policy and to submit annual reports to the government by studying and evaluating the activities of the Anti–Money Laundering Department.

  – The financial intelligence unit (FIU). This group will collect necessary financial information from commercial banks, financial institutions, and other concerned agencies (including individuals) and submit it to the Anti–Money Laundering Department; process and keep records of the information received from the concerned agencies; conduct training for the personnel of concerned institutions; establish necessary cooperation and coordination with the Anti–Money Laundering Department; and coordinate activities with the FIUs of other countries and international agencies.

  – The Anti–Money Laundering Department. This main implementing agency will be headed by a special-class government offi-
cial and be under the prime minister's office. Its main functions are to collect, follow, monitor, study, and analyze reports and information received; to investigate financial institutions, other entities, or individuals; to appoint inspectors to investigate cases; to appoint a subcommittee or subcommittees to study and make proposals in particular cases, if necessary; and to collect evidence to prosecute criminals.

- Banks, financial institutions, and other entities are required to regularly report financial transactions exceeding a specified amount to the FIU. They are required to report all suspicious transactions irrespective of the amount. The threshold has not been specified; it will be determined by rules formulated after the measure is enacted.

- An individual found guilty of money laundering will be sentenced to jail for a period of 1 to 4 years, or fined up to Rs2 million (about US$26,000). Offenders could receive both a fine and jail term. If civil servants or persons responsible for executing this act commit offenses, they will face sentences one and a half times greater than the above penalties.

Krishna Bahadur Manandhar is executive director of the Nepal Rastra Bank’s foreign exchange department. He served earlier as deputy chief controller, assistant controller, and assistant research officer at the bank. His previous work experience includes terms as section officer in Nepal’s planning commission in 1973–74 and as research officer in Centre for Economic Development and Administration (CEDA) in Kathmandu (1973).

Mr. Manandhar has participated in many banking and financial sector training sessions organized by the IMF, World Bank, U.S. Agency for International Development, and multinational banks. He has been a member of the board of directors of Nepal Arab Bank since 1999 and was a member of the board of directors of Rastriya Banijya Bank in 1998–99.

Mr. Manandhar holds a postgraduate diploma in development economics from the University of Manchester, England, and an MA in economics from the Tribhuvan University, Nepal.
I would like to give you an overview of the Asia/Pacific Group on Money Laundering (APG), briefly identify some of the major challenges facing the APG in the region, and cover some of the work that the APG is doing to help its members implement anti-money laundering and terrorist financing requirements and recommendations.

My background includes 18 years as a prosecutor and team leader in task forces on organized crime and money laundering. Therefore, I am very pleased to see international financial institutions taking such an active role in this issue—one that involves the legal, financial, and law enforcement sectors.

The APG was established in 1997. It is a regional body with the same aims, objectives, and standards as the international Financial Action Task Force (FATF). Its main purpose is to facilitate the adoption of its 40 Recommendations against money laundering and 8 special Recommendations against terrorist financing. The group’s role includes assisting jurisdictions in the region to enact laws dealing with the proceeds of crime; mutual legal assistance; and confiscation, for-
feiture, and extradition. The APG also helps jurisdictions set up systems for reporting suspicious transactions and establish financial intelligence units.

The goal of the APG, as set out in our mission statement, is to contribute to the global fight against money laundering, organized crime, and terrorist financing by enhancing anti-money laundering and anti-terrorist financing measures in the Asia Pacific region. It is not the standard setter, but it does represent the standard setter (FATF) in promulgating and explaining the standards.

The challenges facing the region are many. Some have been identified tonight—capacity building, extra teams, training, and technical assistance. I will focus here on the importance of terrorist financing, especially given the fact that in Bali last week almost 200 people were killed by a terrorist bomb. One hundred of them were Australian citizens; one of them was a friend of mine. This brings it very close to home.

The APG must determine the sources and types of money laundering while taking into account the considerable variance among countries in the messages and regimes that are needed to counter it. A single, basic set of standards must be adopted, but we must also recognize—as we did in the APG’s work in technical assistance—that implementing those standards requires tailoring to suit local needs in each of the three relevant disciplines—legal, financial, and law enforcement. Institutional capacity also needs to be measured in a context-specific manner.

Another major challenge in the region includes keeping up with and responding to changes in money laundering trends and techniques, including the apparently wide use of alternative remittances in underground banking. I was very interested to hear the comments from Bangladesh about the hawala and hundi systems and the efforts to bring them into the formal financial system. The APG has a special working group on this subject. We are now working in detail on that aspect of money laundering and terrorist financing, and we hope to have some draft guidelines for practical ways to license, monitor, and regulate the hawala and hundi systems. We need to compare those guidelines with the expertise of member countries. We will certainly invite Bangladesh to participate in that working group.

Another topic mentioned by two of the countries was information sharing. The APG has a working group looking at information sharing in a
very pragmatic way. (Our money laundering typologies exercise, to be held next week in Canada, will focus equally on underground banking and information sharing.) The goal of the working group on information sharing is to ensure that various methods of sharing information on money laundering are well known and understood, and that the process of information sharing is accelerated.

The main topic that has emerged from tonight’s discussion is the need for technical assistance. It was mentioned earlier that there has been an agreement between the World Bank, the IMF, the regional anti–money laundering bodies, and the FATF to better coordinate assistance to countries that want to put standards in place. We are playing our role in this region in that regard, and you all have seen a copy of the matrix that we have put together. I hope that it is helpful, but it is only a start in this process. We hope to be as practical as we can be, and we would like to begin to use that matrix to fill in its gaps.

We have tried to set up this matrix based on international standards as they currently exist—broken down into legal, financial, and law enforcement requirements. But the full scope needs is not yet fully understood, and it will only be understood in collaboration and consultation with our members and observer countries. So we have a team to do that, and we will devote resources to it. As I mentioned earlier, we have started conducting a needs assessment of several of our member countries with a view to making those needs much clearer. Then we will move on to help satisfy them.

This is not to say that we will be competing with countries or organizations that are currently providing assistance. But we have come to the view, after much feedback from our members and after much work on money laundering, that a staged, sequential, logical approach is necessary. Without appropriate laws and regulations, there is not much point in setting up financial intelligence units or investigating money laundering. We believe there needs to be a cascading sequence of technical assistance and training—beginning in the legislative area, moving on to the financial and regulatory area, and then reaching law enforcement.

During the APG’s annual meeting in June we had a special forum on technical assistance and training. Emerging from that forum was a feedback mechanism between those countries that were seeking assistance and those that were in a position to provide it. Since then
the APG secretariat has been able to start delivering some assistance to its members, but we look forward to doing that much more consistently in future collaborations with the IMF and the World Bank. One thing I would ask, with your indulgence, is whether Bangladesh, Nepal, and Bhutan would be able to identify their specific needs in the fairly near future—as a coordinating point for technical assistance. We do have some indication so far, but not a thorough one. We would do our best to see that those needs are met in collaboration with the providers.

Rick McDonell is an Australian lawyer who has headed the secretariat of the Asia/Pacific Group on Money Laundering since its inception in 1997. Between 1995 and 1997 he established and was head of the FATF’s Asia secretariat, the group that led to the creation of the APG.

Before joining the APG Mr. McDonell had extensive experience in public service, both as a prosecutor and as the national coordinator of investigations for Australia’s National Crime Authority. In those positions he prosecuted many criminal cases and was the team leader of large task forces on organized crime, coordinating investigations on the national and international levels. He also has experience as an academic and in private legal practice.

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

The Asian Development Bank (ADB) can assist member countries in establishing and strengthening their legal and regulatory frameworks to combat money laundering and terrorist financing. Fundamentally, we have three modalities:

• We are conducting policy dialogues with each government on a regular basis. Within the overall context of economic development, money laundering and terrorist financing issues may be prioritized in these dialogues.

• Loans—fighting money laundering is likely to be one component in a financial sector program loan.

• Technical assistance grants include two types of projects—regional technical assistance targeting more than one country, and country-specific technical assistance.

It should be scrutinized which of the above might best fit the particular conditions or needs of each government.
Three current ADB grant projects fund technical assistance related to money laundering. A regional technical assistance project focuses on nine countries. In March 2002, country-specific technical assistance projects for Indonesia and the Philippines were approved. For both countries, the implementation of the projects will start very soon.

ADB has provided many loans with components closely related to anti-money laundering. The loans have supported improvements in accounting, auditing, anti-corruption, corporate governance, public sector management, and tax administration. All of these areas, if appropriately strengthened, help establish strong financial sectors that can prevent money laundering and terrorist financing.

I would ask that each government discuss internally to prioritize the need for each kind of assistance. ADB is pleased to cooperate and collaborate with other major donors in providing assistance, including the World Bank and IMF. We also consult daily with the APG Secretariat.

I hope that the provision of technical assistance will improve on the regional level, especially after the establishment of the coordination mechanism by the World Bank and IMF in April 2002. The APG Secretariat is becoming a regional focal point for coordinating training and technical assistance needs, and ADB supports that development.

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

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

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

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

Based upon today’s discussions, we learned of progress toward the development of AML/CFT regimes in the region. However, that progress is going to lead to a significant demand for technical assistance. In looking at the variety of assistance that will be required, I would emphasize the comment that Rick McDonell made—it is important to coordinate and sequence AML/CFT assistance.

Awareness-raising was not discussed here today, but we believe that public awareness programs for legislators, senior government officials and members of the public are very important not only in this region, but in any region seeking to develop AML/CFT programs and regimes. The impact of money laundering on the financial sector and on capital formation has been discussed thoroughly today and these issues should be brought to the attention of the public and policy makers.

Legal framework assistance is needed in the region. The World Bank and the IMF stand ready to assist in this area. Further, some key areas for capacity building include supervision of financial institution, where guidance is needed to develop supervisory skills and the development
of policies and procedures necessary to implement AML/CFT regulations. The private sector also requires training in know your customer rules and to identify suspicious transactions. Prosecutors and judges must be trained to prosecute and hear cases involving these new crimes. Law enforcement financial investigators require training in financial investigative techniques to learn how to follow the money.

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

Several issues of regional importance were raised. The informal remittance system has been talked about extensively, and it is good to know that the APG has already an ongoing working group to discuss this issue and its possible use in money laundering and terrorist financing. Cross-border transfers and smuggling are very large issues that impact upon any AML/CFT regime and require training for border control. Information sharing is another issue for this region along with money laundering through non-bank financial institutions. As was noted the APG has recognized information sharing as an important AML/CFT matter and has formed a working group to review the issue. It is very important to stay current with money laundering typologies in the region—these vary from country to country—if we are going to have any chance of keeping up with creative criminals. Finally, most economies in the areas are cash-based, and that again requires a different focus and innovative ways of dealing with these issues.

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.
Money Laundering and its Broader Context:

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

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

Background Empirical Materials for Discussion

Note: All data contained here is preliminary and for discussion only, reflecting research-in-progress.
Anti-Money Laundering and Combating the Financing of 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 'persuasive'.

Source: Global Competitiveness Survey 2000.
Money Laundering (through Banks) and Auditing and Accounting Standards

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Source: Global Competitiveness Survey 2000.

Money Laundering (through Banks) and Solvency of Banks

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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