Anti-Money Laundering and Combating the Financing of Terrorism

Regional Videoconference: East Asia and Pacific Region—Cambodia, Lao People’s Democratic Republic, Mongolia, Thailand, and Vietnam
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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 East Asia and Pacific Region of the World Bank
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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 Eighth 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, Africa, and South Asia. The eighth dialogue in the series covered East Asia and the Pacific. Held on November 13, 2002 (November 12 in Washington), it featured experts from Cambodia, the Lao People’s Democratic Republic, Mongolia, Thailand, and Vietnam.

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 134 participants from client countries who represented financial intelligence units, central banks, ministries of finance, ministries of justice, ministries of interior, national development banks, state banks, and other institutions.

The event provided a unique opportunity for five East 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 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.
Welcome and Introduction
• Thomas Rose

The World Bank/IMF Response to Money Laundering and Terrorist Financing
• Margery Waxman, Program Director and Senior Advisor, Financial Market Integrity, World Bank.
• John Abbott, Technical Assistance Advisor, 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?
• Phan Ho, Director, Bank Supervision Division, National Bank of Cambodia
• Sivath Sengdouanchanh, Deputy Director General, Legislative Department, Ministry of Justice, Lao People’s Democratic Republic
• A. Batsukh, Vice-Governor, Bank of Mongolia
• Tsend Munkh-Orgil, Deputy Minister, Ministry of Justice and Home Affairs, Mongolia
• Viraphong Boonyobhas, Vice Dean, Faculty of Law, Chulalongkorn University, and Director of Business Crime and Money Laundering Data Bank, Thailand
• Political Colonel Peeraphan Prempooti, Secretary General, Anti–Money Laundering Office, Thailand
• Nguyen Dang Hong, Deputy Head, Inspection Department, State Bank of Vietnam

The representatives from Cambodia, Lao PDR, Mongolia, Thailand, and Vietnam were asked to address the following issues:

• What have been the country’s responses to money laundering and terrorist financing?
• What institutional arrangements have been made to detect, investigate, and prosecute suspicious transactions?
• What are the key challenges for the country in combating money laundering 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
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:

I. Major points raised by the World Bank and IMF

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
• Evaluating the adequacy of national regimes to fight money laundering and terrorist financing is part of IMF’s core mandates
• IMF together with the World Bank mobilizes technical assistance to help countries meet international standards
• Criminal law enforcement is outside the mandate of both the IMF and the World Bank
• Preliminary results of a questionnaire include: weak legal and regulatory frameworks, narrow definitions of anti–money laundering laws, ineffective implementation of money laundering and terrorist financing regimes, poor industry awareness, understaffed supervisory agencies, a narrow range of institutions subject to requirements, inattention to vulnerabilities outside the banking sector, inadequate reporting and evaluation of suspicious activities, and the absence of FIUs

**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
II. Major activities, issues and challenges raised by the countries

Thailand

- Anti-Money Laundering Office (AMLO) was set up in 1999 subsequent to the AML Act of 1999
- AMLO as the Financial Intelligence Unit (FIU) has recently signed an MOU with Belgium and currently in the process of finalizing agreements with Australia and Russia
- AMLO has trained financial institutions as well as police and customs agents to better understand the issues associated with AML matters and to spot transactions which should give rise to concern

Lao PDR

- The Government has recently taken an interest in issues associated with AML and CFT
- No AML/CFT legislation currently exists. The Government will need some assistance as it continues its review of the issue and the drafting of a law
- Need assistance in creation and development of an FIU under the Ministry of Foreign Affairs
- There exists a conflict of interest for the banks between the reporting of suspicious transactions and the need for more customers and deposits if they are to grow their lending portfolios. In looking at this issue, it is necessary to address the bank secrecy requirements in the context of disclosing ML/TF activities
- Given the very limited knowledge of AML/CFT issues by prosecutors and judges there will be a need for technical assistance supported by training. As this is a new subject matter, training in financial investigation techniques is required
- Laos recognizes the need for strong regional and international cooperation on cross-border transactions, including best practices concerning information sharing if they and their neighbors are to be successful in combating money laundering
- General public awareness of money laundering is lacking. In order for progress to be made in the area of AML, there will need to be strong public support and government commitment. This might be possible if an organized public awareness raising campaign were initiated
Cambodia

- Dollarised economy and extensive use of US dollars in the informal sector
- Currently the country does not have a formal AML/CFT law. Other laws are used, but are very limited. Assistance is needed in developing and implementing necessary AML/CFT laws, regulations and policies
- The Country would like to see an expansion of existing programs on AML/CFT currently provided by donors
- Assistance will also be needed in the establishment of an FIU and in building its capacity to function effectively
- Initial “know your customer” rules and process are not yet in place in the banking system and banks need to put in place AML/CFT policies and training on AML/CFT issues

Mongolia

- Large informal sector dominates many transactions
- Use of the banking system is limited resulting in a cash based economy
- There is a general lack of experience in AML/CFT matters, but given the geographic location it would appear that transactions are already coming in to the country as a result of stricter enforcement in neighboring countries
- Need to build an effective legal, regulatory and institutional AML/CFT framework
- Looking forward, assistance may be needed in the establishment of an FIU
- Need for initial training and ongoing training of law enforcement and banking sector professionals on AML/CFT
- Active involvement of law enforcement agencies in developing and implementing AML/CFT framework
- Need financial support from donors in establishing an AML/CFT regime

Vietnam

- Recognizing money laundering as a global concern
- Existing laws help a little in combating money laundering within the formal banking system
• There are however, ineffective controls of funds flow outside the banking sector
• The Government has been looking at the issue and a group from the State Bank of Vietnam have been asked to prepare a first draft of legislation for AML/CFT laws
• Vietnam would like to receive assistance and advice from donors and other countries in building an AML/CFT framework

III. Issues of concern to APG

• Recognition and implementation of AML/CFT international standards by countries in a speedy and comprehensive manner
• TA needs assessment of recipient countries might be helpful in ensuring that all required assistance is recognized
• Need for coordination of TA by providers and donors
• Establishing working relationship and partnership between the private sector and government in implementing AML/CFT standards
• Training for financial sector professionals in detecting and preventing suspicious transactions should be included in the list of assistance being requested and provided
• Training for law enforcement officials is also necessary

IV. Major points raised by ADB

• Negative impact of ML on economic development, investor confidence and integrity of financial institutions
• Significant need for TA and capacity building in the region
• Critical training in financial investigation techniques, especially for FIUs

V. Additional comments and suggestions

Moderator’s point

• Suggested a dialogue among key policy leaders on the issue of anti money laundering as a way to increase awareness and to build support
• A face to face regional dialogue of key people tasked with moving AML forward in each of the countries could be of assistance. This could serve as an avenue for sharing experience
APG

• Regional dialogue as way of awareness raising should be encouraged
• Country by country dialogue to identify entire AML/CFT requirements of the country would also be of value
• Learning from other countries’ successful experience in creating a national AML/CFT coordination agency is helpful in putting into reality the concepts that are discussed

VI. Wrap-up by John McDowell

• Assistance in drafting AML/CFT laws and regulations can be provided by the IMF, World Bank and ADB in coordination with APG
• Sequencing of AML/CFT TA is critical
• Assistance in FIU creation and development is also available
• Training for judges, prosecutors and other law enforcement officials is important and will be addressed in the TA coordination database developed by the World Bank and IMF
• Awareness raising for the public, legislators and senior government officials is often necessary to gain needed understanding and support for AML/CFT
• Further cooperation with APG and Thailand to utilize their expertise in AML/CFT and the provision of TA to countries in the region could be of value
• Developing a private-public partnership on AML/CFT issues and participation of the private sector is paramount and envisioned for the next round of dialogue series
Welcome and Introduction

- **Thomas Rose**, Program Manager, East Asia and Pacific Region Financial Sector, World Bank

This is the eighth in a series of videoconferences aimed at enabling the World Bank, the International Monetary Fund (IMF), the Asian Development Bank (ADB), other regional bodies, and our client countries to discuss and exchange information on the challenges faced in the struggle against illicit money flows, to share the lessons of success, and to identify the types of assistance countries might need to combat money laundering and terrorist financing.

This videoconference comes at a time of increased international cooperation in the fight against money laundering. Last week many of the participating countries agreed at an Association of Southeast Asian Nations (ASEAN) meeting to jointly combat money laundering. The World Bank and the IMF recognize that money laundering, if left unchecked, can undermine the integrity of any financial system. They present special dangers to countries that are trying to enhance the capacity of their financial institutions.
We in the World Bank’s East Asia Region are therefore pleased that representatives of five countries are here to share their ideas and concerns. Cambodia, Lao PDR, Mongolia, Thailand, and Vietnam reflect diverse experiences with anti-money laundering and combating terrorist financing regimes. Most of the countries are weighing the need for legislation and reviewing their current systems to determine what further arrangements might be useful and appropriate. Thailand is a little further ahead. It enacted its Anti–Money Laundering Act in 1999, so we hope to learn something from our colleagues in Thailand.

Our aim today is to engage in a candid dialogue. Above all we hope to become aware of your technical assistance needs. This is the first step as we begin the process of assisting countries.

I am particularly pleased with the list of speakers and participants here in Hanoi, in Washington, and in each of our participating countries. The participants reflect the broad range of international and regional expertise—as well as the desire to learn more. I hope this session helps start the dialogue for all of us.

Thomas A. Rose is program manager for Financial Sector in the East Asia and Pacific Region of the World Bank. Previously he was principal financial sector specialist for banking and financial restructuring operations in the Bank’s Financial Sector Vice Presidency. His expertise is in resolving and restructuring failing and failed financial institutions, including strengthening supervision and capacity building of financial supervisors and regulators. Mr. Rose also has several years of experience in debt restructuring.

Before joining the World Bank in June 1998, Mr. Rose spent 16 years as a lawyer, manager, and senior executive at the U.S. Federal Deposit Insurance Corporation (FDIC), including time at the Resolution Trust Corporation (RTC), where he was responsible for the oversight of failing financial institutions, receiverships, and asset disposition. He has more than 20 years of experience in bankruptcy and general insolvency matters. He served as a member of the board of directors of the American Bankruptcy Institute for several years.
The World Bank/IMF Response to Money Laundering and Terrorist Financing

• Margery Waxman, Director, Financial Market Integrity Department, World Bank

The World Bank and the IMF initiated their joint program on money laundering and terrorist financing in April 2001, recognizing that money laundering hinders growth and undermines governance.

The World Bank recognizes that money laundering is a problem of global concern, not limited to one region or one country. It undermines financial stability and the integrity of financial systems and poses a long-term threat to development. Because it is a program of global concern, it calls for a global response.

We need global cooperation in work on legal systems, judicial and governance systems, and effective law enforcement. No country, acting alone, can take on the responsibilities of fighting money laundering and be successful. We need each other. The principal contribution the Bank can make is to assist countries in identifying vulnerabilities in their anti-money laundering regimes and helping them to address the root problems and strengthen their economic, financial, and governance functions.

The World Bank and IMF recognize the Financial Action Task Force (FATF) as the standard setter in the fight against money laundering. After September 11, we looked to it to set standards for systems to combat the financing of terrorism. Since then we have worked with the IMF, FATF, and other standard setters (such as the Basel Committee) to develop a comprehensive methodology for assessing compliance with international standards.

A joint World Bank/IMF program on financial sector assessment is part of our work. Recently, the Bank’s board voted to endorse adding anti-money laundering and combating the financing of terrorism to the list of 11 financial sector standards covered in assessments. Some countries in Asia have already undergone their financial sector assessment, but many others have not. Over the next several months, the World Bank and IMF will be contacting client countries that have not yet done the assessment to urge them to do so.
The financial sector assessment program and the related reports on compliance with international standards and codes are voluntary programs. We work with countries to assess compliance, but it is up to the countries themselves to decide whether and when they wish to be assessed. We have been successful in getting many countries to agree to assessments because they are voluntary, cooperative, and consistent across the globe. Likewise, the assessment methodology that we have developed with the FATF is applied consistently across the world. It is cooperative, in that it is voluntary and confidential. These are the principles insisted upon by the World Bank and IMF.

Over the next 12 months, we will use the new methodology to conduct pilot country assessments. As we identify vulnerabilities in country programs, we will provide technical assistance and capacity building and training. This videoconference is an example of the kind of work that we expect and hope to do. We see it as the beginning of a dialogue—between the World Bank and IMF and the Asia/Pacific Group on Money Laundering, and with each other—an opportunity to share experiences and learn.

The Bank’s board of executive directors has made it very clear that the Bank should help countries build up their anti-money laundering regimes. The Bank is already providing assistance to countries around the world in drafting laws and regulations, in working to strengthen financial intelligence units (key components of any effective anti-money laundering regime), and in strengthening financial supervision. We are looking forward to providing assistance, where we can, to meet your requirements.

The Bank has not made compliance with anti-money laundering standards a condition of Bank loans or any Bank programs. Assessment is voluntary. We believe it is important because it is important to the future of your countries. To make sure that participating countries get the assistance they need, without gaps or duplication, we have been working with the United Nations Global Programme against Money Laundering, the United Nations Counterterrorism Committee, the regional development banks, and bilateral donors that fund technical assistance.

The Bank stands by to help you strengthen your systems for fighting money laundering and terrorist financing. I look forward to our discussion today; I know we will all learn something from each other.
Margery Waxman heads the World Bank’s program to promote financial market integrity, with particular emphasis on global efforts to combat money laundering and the financing of terrorism. A U.S. national, Ms. Waxman joined the Bank’s Legal Department in 1997. She led the Bank’s technical assistance efforts in banking law reform, legal aspects of bank restructuring, and the establishment of asset-management corporations in East Asia after the financial crisis there. In August 2000 she was appointed director of the Banking and Financial Restructuring Department in the World Bank’s Financial Sector. Prior to joining the World Bank Ms. Waxman was a partner in the international law firm of Sidley and Austin specializing in banking regulatory issues and was deputy general counsel in the U.S. Department of Treasury. She holds a JD from the George Washington University Law School and a BA from Smith College.

- **John Abbott**, Technical Assistance Advisor, Special Financial Supervisory Issues Division, Monetary and Exchange Affairs Department, International Monetary Fund

My remarks outline what the IMF does in this field. We work so closely with the World Bank that there may be a little repetition.

We have been at this work for about three years, and the work certainly has intensified since the events of September 11, 2001. Our activities at the IMF, as at the World Bank, center primarily on evaluating the adequacy of national regimes to fight money laundering and terrorist financing. After identifying vulnerabilities and weaknesses in legal, institutional, and supervisory regimes, we mobilize technical assistance to help countries correct the problems. I would emphasize that criminal law enforcement is outside of the mandate of both the IMF and the World Bank, so we have to rely on others to carry that particular burden.

I want to speak specifically about our assessment work. As Margery Waxman said, we have recently completed a comprehensive methodology for assessing national compliance with international standards on money laundering and terrorist financing. It has been a long project, a bit of a bureaucratic project, but it represents a considerable achievement. The IMF has worked with the World Bank, the FATF, and all the other standard setters—the Basel Committee, the International Organization of Securities Commissions (IOSCO), the International Association of Insurance Supervisors (IAIS), the Egmont Group of financial intelligence units, and the FATF-style regional bodies—including the Asia/Pacific Group on Money Laundering that is participating in this videoconference.
We have come to a common understanding of what the international standards for fighting money laundering should be. The basis is primarily the FATF’s 40 Recommendations on money laundering plus the additional 8 Recommendations on terrorist financing, but our assessment methodology includes financial intelligence units as well.

The methodology is detailed and comprehensive. It provides a systematic way of reviewing—step by step, issue by issue—the standards that the international community expects in an adequate anti-money laundering regime.

It is divided into three sections. The first recognizes that the bedrock of an effective regime is a legal infrastructure that adheres to the FATF 40 + 8 Recommendations, the relevant international conventions, and UN Security Council resolutions. This first section reviews the nation’s legislative framework related to criminal justice and international cooperation, including the institutional arrangements for establishing FIUs.

Given the global nature of the efforts against money laundering and terrorist financing, the methodology reviews the legal and institutional arrangements for effective cooperation at both the national and international levels. Because criminal law enforcement falls outside our mandate, these issues are reviewed by independent experts provided by countries that are members of FATF and FATF-style regional bodies.

The second section of the methodology focuses mainly on preventive measures—measures that should be in place in the financial system—with particular emphasis on the banking, insurance, and securities sectors. In developing this section of the methodology, sector-specific criteria and recommendations from relevant standard setters such as the Basel Committee, IOSCO, and IAIS were taken into account.

The assessment of preventive measures considers both the legal requirements placed on financial institutions and their regulators, as well as the implementation of those requirements. It recognizes that financial institutions are at the forefront of efforts to combat money laundering and the financing of terrorism. Consequently, it stresses adherence to requirements for strict customer identification, due diligence, and record keeping that enable a detailed audit trail that can assist law enforcement authorities in investigating and prosecuting offenses. This section also reviews legal and institutional measures
requiring financial institutions to monitor and report suspicious activity to FIUs or other competent authorities.

The methodology also recognizes the need for higher-level controls. It reviews legal and supervisory controls to ensure that financial institutions are not themselves owned or controlled by criminals. Integrity standards are assessed, including requirements for persons who own or manage financial institutions. These requirements are applied first at the licensing stage and then on an ongoing basis to prevent unauthorized changes in ownership and control. An extension of the principle of “fit and proper” ownership and management is the “know your employee” principle. Strict recruitment practices help prevent employees from aiding and abetting criminals and from frustrating or circumventing internal controls and procedures that guard against money laundering.

The methodology reviews the national mechanisms that govern cooperation among financial sector supervisors at the domestic and international levels and with competent authorities such as FIUs. We have attempted to cover all of the internationally recognized standards and provide a procedure for evaluating whether or not regimes in various countries meet them.

In the process of making the assessment we conduct a diagnostic. At the end of the diagnostic, we are in a position to evaluate the country’s current status, identify areas for improvement, and make recommendations. As Margery emphasized, the view of the boards of the IMF and World Bank is that the assessment process represents a cooperative exercise aimed at strengthening national regimes to prevent money laundering and terrorist financing. The diagnostics—and the recommendations for improvement that come out of them—are integral parts of the effort.

This work is not entirely new. While we were developing the methodology over the last year, we conducted preliminary assessments using material from the IMF’s financial sector assessment programs (FSAPs) and offshore financial center (OFC) assessments. In addition, we administered questionnaires as part of the Article IV process for countries that had not been involved in FSAPs or OFC assessments to get a sense of where these countries stood.

We now have some experience with the process, and some preliminary results. Although we have identified many weaknesses, it is also
true that over the past two years—partially in response to assessments, but also because of the changed international environment—many countries have strengthened their regimes by adopting new legislation and creating FIUs.

Among the weaknesses we have identified are weak legal and regulatory frameworks, narrow definitions of anti-money laundering laws, ineffective implementation of money laundering and terrorist financing regimes, poor industry awareness, understaffed supervisory agencies, a narrow range of institutions subject to requirements, inattention to vulnerabilities outside the banking sector, inadequate reporting and evaluation of suspicious activities, and the absence of FIUs.

We have built a framework of policies and procedures. We now face an intensified rollout of the assessment process and much more intensive work on technical assistance. In this effort, the Bank and IMF are working jointly, with the Bank taking the lead in developing a mechanism to coordinate the technical assistance requirements that emerge from the assessments. Donors that wish to provide technical assistance can tap into a central data bank and find out what countries need. Countries seeking assistance will be able to identify donors and other resources. The coordination process will minimize not only duplication but also any attempt at centralized control of the whole process.

John M. Abbott, a U.S. national, is technical assistance advisor at the special Financial Supervisory Issues Section of the IMF’s Monetary and Exchange Affairs Department. Before assuming his current position, he served as deputy controller in the Office of the Comptroller of the Currency of the United States and as Treasury Department representative at the U.S. embassies in London, Tokyo, and Brasilia. From 1991 to 1996 he advised the U.S. executive director of the IMF. He has taught at California State University Northridge.

Mr. Abbott holds a PhD in economics from Tulane University, and BA and MA degrees in economics from Texas A&M University.
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

There are two points that I would like to stress. The first is very much consistent with what Margery Waxman and John Abbott said about country specificity. It is very clear that there are enormous differences in the problem of money laundering across countries at three levels: (1) sources, (2) types of institutions that play a role in money laundering, and (3) consequences. These differences reinforce the need for country-specific diagnostics, with expertise from the country where needed—to be supported from the outside, but to be led from within the country.

The second key point is the essential need to focus on the broader framework of governance—both within the country and internationally. This is crucial to fully diagnose, understand, and provide remedies for the problems of fighting money laundering. We must not focus only on rules and regulations within the narrow confines of the financial sector because the problem may be broader than that. To provide a brief synthesis of key aspects and linkages within a broader governance framework, we present the “laundromat” AML chart below (and in slide 2 of the presentation found 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 though money laundering transactions. The second row (stage 2) refers to the types of financial transactions and intermediaries. The third row (stage 3) shows the uses to which funds are put. The last row (stage 4) indicates the ultimate impact of the activity—does it favor development or discourage it?

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

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

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

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

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

The rest of the slide presentation suggests the empirical links between money laundering and a few related variables – depicted as 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 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?

Phan Ho, Director, Bank Supervision Division, National Bank of Cambodia

Cambodia’s rudimentary banking system is characterized by limited financial integration. There are 17 commercial banks, a few specialized banks, and some micro-finance institutions. The U.S. dollar dominates the formal banking system and is widely used in the informal sector—so we can say that the Cambodian economy is a dollarized economy. We have undergone bank restructuring since 2000.

Response to Money Laundering and Terrorist Financing

The National Bank of Cambodia (NBC) has recently promulgated anti–money laundering procedures to help banks spot potential money laundering by clients. The procedures also will help banks develop policies to ensure—and monitor—effective action against money laundering. Each bank’s policy must include a system of internal control to ensure ongoing compliance, independent testing of compliance, and monitoring of compliance by a designated person. Every bank must appoint an individual whose sole responsibility will be to deal with money laundering activity. Personnel will have to be trained.
Financial institutions will have to know their customers, therefore, anonymous accounts will be prohibited. Opening accounts for inactive companies will be restricted, and shareholders must be identified. Unless a customer has been known for years, financial institutions must base identification on official documents. To ensure effective internal control, financial institutions shall establish a comprehensive set of policies governing the opening of accounts, monitoring, and currency reporting procedures. Senior management must be kept informed.

Both internal and external auditors must be able to attest to the overall integrity and effectiveness of management systems, controls, and technical compliance. All areas of the financial institution must be protected, with emphasis on high-risk areas.

The adequacy of the financial institution’s process for identifying suspicious activity must be assessed.

Bank and financial institutions must ensure that appropriate personnel, including senior management, are trained in all aspects of the regulatory requirements and internal anti-money laundering policies and procedures.

All financial institutions are required to submit to the NBC reports on transactions that may indicate a violation of laws or regulations, such as transactions that do not make economic sense, transactions to borrow large amounts of cash, transactions involving deposit accounts, and international transactions. Institutions shall be prohibited from informing customers about the issuing of a suspicious activity report.

Imports or exports of more than US$10,000 must be declared at the border.

Financial institutions are required to maintain records for a period of 10 years to ensure that transactions of financial instruments of US$10,000 or more can be reconstructed.

Regarding countering terrorist financing, the NBC receives from the U.S. Embassy the list of the international terrorists. It has advised banks to freeze and confiscate their accounts.
Needs for Technical Assistance

Cambodia requires:

- Technical assistance to help in developing and implementing necessary laws, regulations, and policies to combat terrorist financing and money laundering

- Assistance to expand the existing programs and training centers currently funded by some international organizations

- Technical assistance for the creation of a financial intelligence unit, and training and capacity building for its staff—including how to conduct intelligence, how to detect or to identify money laundering, and how to combat terrorist financing.

Phan Ho has been director of the Bank Supervision Department at the National Bank of Cambodia since 1998. He previously held various positions in the Ministry of Planning including director of the Trade and Finance Department (1997–98), deputy director of the International Relations Department (1991–97), chief of finance in the Trade and Finance Department (1990–91), and deputy chief of the New Development Zone in the Labor and Salary Department (1989–91). He was a member of the staff of the Labor and Salary Department from 1981 to 1989. From 1972 to 1975 he was on the staff of the labor legislation office, Inspection Department, Ministry Labor and Social Affairs.

Mr. Ho earned an MBA in finance from Charles Sturt University of Australia. He also holds a bachelor’s degree in economics planning from the Institute of Economics (1989) and a bachelor’s in economics sciences from the Faculty of Law and Economics Sciences in Phnom Penh, Cambodia.

- Sivath Sengdouanchanh, Deputy Director General, Legislative Department, Ministry of Justice, Lao People’s Democratic Republic

Response to Money Laundering and Terrorist Financing

It is a great honor for me to speak on behalf of the Lao team. I will be brief because in Laos at present we have no law dealing specifically with money laundering. We have to rely on the penal law. Article 32 authorizes police and prosecutors to conduct investigations and seize assets, but that is not really a proactive approach.
There are few investigations of terrorist financing in our country, but many investigations and prosecutions of drug trafficking, corruption, arms smuggling, and prostitution. The first time that Laos took action against terrorist financing was after the September 11 attack, when the Bank of the Lao People’s Democratic Republic instructed all commercial banks to investigate suspicious transactions. So far, we have not found any suspicious activity.

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

Presently we have no specific arrangements to deal with money laundering or terrorist financing. Under penal law and criminal procedure the Bank of the Lao People’s Democratic Republic is not an investigating authority. We are concerned, however, about how banks would proceed if they found uncovered suspicious activity or if they were to identify the assets of terrorists. We believe we shall have to consider establishing a new financial investigation unit, possibly attached to the central bank or to the Ministry of Home Affairs. We are still thinking about the matter.

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

As I mentioned already, we lack specific anti-money laundering legislation. Investigation and interrogation organs, the public prosecutors, and judges have limited knowledge and understanding about these kinds of crimes. To a certain extent, to my own understanding, there are some conflicts of interest within the banks over how much information they would like to disclose.

In terms of money laundering, the criminals have really good networks—locally, regionally, and even internationally. But law enforcement has borders, and it is difficult to cooperate among our neighboring countries at the international level. We need strong international cooperation to fight money laundering. Many of the world’s developed countries have suspicious accounts and corrupted money in their banks, but they do not disclose that information to other countries.
Another problem in Laos is that the public has a very limited knowledge of the negative impact of money laundering. The people do not understand that it causes many problems to financial institutions in the country.

**Needs for Technical Assistance**

Our government must develop an action plan against money laundering and terrorist financing, and we will need external support. We would like the World Bank or other international organizations to consider helping us draft anti-money laundering legislation. We have no experience in this regard, and it would be good to learn from others—in the region, in Europe, and in the United States.

The law will not be enough. We must build our own capacity in human resources—government officials, police officials in charge of investigations and interrogations, public prosecutors, and judges. These are the people who will enforce the laws. Specific techniques must be mastered and special skills—like investigation and prosecution techniques—must be developed. We will need public support to deal with this type of serious, organized crime in our country. The public has to support those who fight against corruption, against drug trafficking. We need to organize a public mass-media campaign.

We hope that many government leaders—not only in our country, but in the region and at the international level—will cooperate to fight money laundering and terrorism.

*Sivath Sengdouangchanh* has served as deputy director general of the Legislative Department in the Lao Ministry of Justice since 2000. He is responsible for drafting legislation, providing legal opinions for government agencies, and representing the Lao government in negotiating foreign investment agreements. He also provides on-the-job training on legislative drafting for government agencies and teaches at the Judicial Training Center, Vientiane Law School and the National Police Academy.

From 1997 to 1998 he was acting national project director of the United Nations Development Programme’s “Building a National Legal Framework” law reform project. Previously he was section head of the Economic Trade and Environmental Law Section of the Ministry of Justice. From 1992 to 1994 he taught criminal law and procedure and English to undergraduate law students.

Mr. Sengdouangchanh is a graduate of Bond University in Australia where he obtained a masters degree in law. He completed his BA in law at the University of Sofia, Bulgaria. He has authored several publications including International Arbitration (1998).
On behalf of the entire Mongolian team I would like to thank the organizers of this very interesting forum. There is no question that it is an important course and a useful and valuable information-sharing event.

Response to Money Laundering and Terrorist Financing

At this time Mongolia does not have much to report in terms of experience—positive or negative—simply because we do not have much experience in combating or preventing money laundering. However, the government does recognize the need to take necessary preventive, organizational, and structural measures to prevent and, if necessary, combat money laundering.

Our National Security Council adopted a resolution on September 12, 2001, instructing the government and other government institutions to cooperate with international institutions and organizations to take necessary measures to develop legal and other frameworks. That resolution was followed by a presidential decree in support of international anti-terrorist coalitions and by the adoption of a full government resolution on October 10, 2001. That resolution instructed the Ministry of Finance to cooperate with international institutions—in particular the World Bank—to cut off and combat terrorist financing and money laundering activities. It also instructed the minister for foreign affairs to consider joining international conventions to combat terrorist financing and instructed ministers of justice and chiefs of intelligence bureaus to exchange information on activities that might be linked to drug trafficking or money laundering.

On the international side, we signed in November 2001 an international convention for the suppression of the financing of terrorist activities, and we are planning to ratify the convention shortly in parliament. We are, at the moment, considering joining the Palermo Convention on fighting organized crime and public corruption. We are planning to have a national workshop in the first quarter of 2003 to familiarize ourselves with the requirements of the convention.

On the domestic level, we, like our friends in Laos, have a single provision in the criminal code—code article 163—that criminalizes
money laundering and provides punishment for up to eight years of imprisonment.

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

The key challenges are obvious because of our lack of experience and because of our relative lack of exposure to these sorts of criminal activities. We would need cooperation and assistance from multilateral institutions and donors for training and retraining of our people—both in the law enforcement and in the banking sectors—to detect, prevent, and combat activities that might be linked to financing terrorism or laundering money.

**Needs for Technical Assistance**

The technical assistance we will need in the near future relates to the development of the regulatory environment—developing laws and regulations, training, and developing financing intelligence units.

It was pointed out at the very beginning of the videoconference that it is beyond the mandate of the World Bank and its institutions to assist law enforcement agencies in carrying out specific measures. Because of the importance of the calls for combating money laundering and terrorist financing, we believe it may be necessary to include, at some point in time, law enforcement agencies within the framework of the technical assistance provided by World Bank and institutions. Police agencies and prosecutorial organs are important providers of essential public services, and we do hope that they will be included as recipients of technical assistance and other assistance from international institutions in due course.

*Tsend Munkh-Orgil* has been Mongolia’s deputy minister of justice and home affairs since August 2000. Previously he was an attorney at law with the firm of Munkh-Orgil, Idesh & Lynch in Ulaanbaatar, Mongolia (1997–2000) and at Soble & Associates in Washington, DC (1996–97).

Mr. Munkh-Orgil also held a position as second secretary of the permanent mission of Mongolia to the United Nations in New York (1991–95) and as third secretary of the UN Desk Office at the Mongolian Ministry of Foreign Affairs (1988–91).

Mr. Munkh-Orgil has an LLM degree from Harvard Law School and a Diploma of Law (equivalent to a JD) from the Department of International Law, Moscow State Institute of International Relations. He is licensed to practice law in Russia, Mongolia, and New York.
• A. Batsukh, Vice Governor, Bank of Mongolia

I would like to add two points to what Deputy Minister Munkh-Orgil said. First, under the law governing the Bank of Mongolia, all commercial banks and nonbank financial institutions are required to report on customer transactions to the Bank of Mongolia. Based on the Bank of Mongolia’s recommendation—which reflects the FATF Recommendations on money laundering—these institutions are required to report transactions that can be linked to terrorism and money laundering. To facilitate the enforcement of this reporting to the Bank of Mongolia, we have updated most of our legislation on onsite and offsite supervision. The law allows examination of any records that are supposed to be reported to the Bank of Mongolia.

Second, in the case of Mongolia, there is definitely a need for additional technical assistance. From a practical point of view, it is not easy to relocate some of the existing resources for technical assistance in another area. We need to rely on new resources. But, given the lack of domestic sources for additional funding, we must rely on foreign sources in technical matters.

Since August 31, 2000, A. Batsukh has served as First deputy governor of the Bank of Mongolia. He previously served as economic advisor to the Mongolian People’s Revolutionary Party group at the Parliament of Mongolia (1998–2000). From 1984 to 1994 he was served as an investment analyst at State Planning Committee, State Committee of Social and Economic Development, Ministry of National Development Board of Mongolia. From 1994 to 1996 Director General of Department of Technology and Investment Policy at the National Development Board of Mongolia. Mr. Batsukh holds a Bachelor’s degree in engineering from Institute Narhoz Russia, MSE degree in economics from the University of Illinois USA, Ph.D in economics from the Mongolian National University.

• Political Colonel Peeraphan Prempooti, Secretary General, Anti–Money Laundering Office, Thailand

Institutional Arrangements to Combat Money Laundering and Terrorist Financing

The Thai government has shown a strong commitment to fight money laundering. After the United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances (Vienna Convention) in 1988 and in response to the expansion of drug trafficking in the region,
the Thai government drafted the Anti–Money Laundering Act, which came into force in 1999. (I was a member of the drafting committee.) The Anti–Money Laundering Office (AMLO) is the law enforcement agency established after the enactment of that law.

Many types of money laundering have been identified by the Bank of Thailand—among them are:

- *Carrying cash abroad.* Many people still smuggle cash across the border by land, air, or sea.

- *Deposits in domestic financial institutions.* Some drug traffickers still use banks to deposit criminal proceeds.

- *Wire transfers.* We have found that wire transfers through the SWIFT system are another vulnerability that we should look into.

- *Front companies.* The AMLO has identified some of the front company businesses that criminals set up in order to launder the proceeds of crime.

There are many other varieties of money laundering.

The Money Laundering Act of 1999 criminalized the offense of money laundering with penalties of imprisonment for 1 to 10 years, fines of 20,000 to 200,000 baht, or both. The act also covers seven predicate offences relating to:

- Narcotics trafficking.

- Trafficking in women and children for prostitution

- Fraud to the public.

- Embezzlement, or fraud committed by a chief executive officer, manager, or employee of a financial institution.

- Corruption, especially malfeasance in office and in justice. The Thai government has seen that it is very important to fight against corruption especially in the public sectors.
• Extortion and blackmail.

• Customs tax evasion.

After enacting the law we included extraterritoriality. That means AMLO has jurisdiction in an investigation of money laundering even if the offenses were committed outside the Kingdom of Thailand.

The act comprises three separate frameworks. The first, the legal framework, has criminalized money laundering and even attempted money laundering.

The second is the financial framework. The law compels financial institutions to follow the “know your customer” policy and to check customer identification. They must also check to make sure that businesses actually exist and are not mere fronts. The banks have an obligation to keep records and use due diligence to detect suspicious transactions. Under the Anti-Money Laundering Act of 1999, it is the duty of bank employees to detect suspicious transactions. If they see an individual enter bank premises with suspicious funds, they are required to report to AMLO or the police.

The third framework is international cooperation—a vital instrument to combat money laundering. This March the cabinet authorized me, as AMLO’s secretary general, to sign a memorandum of understanding with other financial intelligence units. We have already signed a memorandum with Belgium and are in the process of signing others with Australia and Russia.

Under the Anti-Money Laundering Act we comply with the FATF 40 Recommendations.

AMLO also helps financial institutions train their employees, from tellers to managers—to identify money laundering activities. We also cooperate with the Bank of Thailand to ensure that financial institutions comply with the due diligence practices recommended by the FATF.

The Thai government has also shown a strong commitment to the fight against terrorist financing. The cabinet has approved an amendment to the Thai penal code to criminalize terrorist acts. That amendment is now under consideration by the House of Representatives. An amend-
ment to the Anti-Money Laundering Act of 1999 will add the financing of terrorism as a predicate offense.

We received a call from an employee of a commercial bank in the northern province of Thailand, where drug activities are common. A customer had brought in cash that had been washed by villagers who had learned from the TV news that AMLO and the police would use dogs to detect drug residues on the cash. The bank employee, having been trained by AMLO, called the police, who then called AMLO. We went to the bank and confiscated the laundered money. Armed with a court order we searched the owners’ premises, finding other items that had been obtained from drug trafficking.

We train bank employees to detect and report suspicious transactions. We use scientific detection in investigations. Bank employees call the AMLO and we call in the police. They bring in the canines, and often we can detect the contamination of drug residue on the money.

I think that the most important role for the Bank community would be cooperation with law enforcement. We still wish to carry on training with the Bank community, and when we work with the Bank we would be the point of contact.

Pol. Col. Peeraphan Prempooti has served since November 2000 in Thailand’s Anti-Money Laundering Office (AMLO), first as the deputy secretary general and, since October 2001, as secretary general. Previously Pol. Col. Prempooti was deputy executive director of the International Law Enforcement Academy (ILEA) in Bangkok where he was responsible for academic affairs (1998–2000). ILEA provides criminal justice training to law enforcement officers in the ASEAN region under a cooperative agreement between the governments of Thailand and the United States.

Pol. Col. Prempooti began his career with the Royal Thai Police (RTP) in 1972 and served his first two years as a platoon leader in the Border Patrol Police Bureau, working to secure and maintain peace and order along the Thai-Myanmar border. He served as a criminal investigator for 14 years in several metropolitan police stations. In 1989, the RTP promoted him to commercial crime investigator in the Economic Crime Investigation Division of the Central Investigation Bureau. There he successfully supervised several commercial crime investigations over seven years. He was promoted to superintendent in 1992. In 1996 he became deputy commander in the Foreign Affairs Division of RTP.

Pol. Col. Prempooti holds a BA in political science from Chiangmai University and a master’s in public affairs from Kentucky State University. He also earned a bachelor of law degree from Ramkhamhaeng University and a master of law degree from Chulalongkorn University. He has received scholarships from the governments of Canada, the United Kingdom, Italy, and the United States for specialized training courses in commercial crime and computer crime. He is a graduate of the FBI National Academy. He lectures regularly on money laundering, commercial crime, and computer crime for the RTP’s training courses.
I would like to focus my presentation on the problem of terrorist financing in Thailand. Thailand has faced with terrorist problems, especially in the southern part of the country, for nearly half a century. But they were only latent problems, and neither the penal code nor the hijacking law of 1978 covered transnational organized crime and terrorism offenses.

With ratification of the 1988 UN Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances, the 2000 UN Convention against Transnational Organized Crime, and the 1999 national anti–money laundering law, there have been many changes in Thai legal provisions.

The 1999 law covers transnational organized crime as well as terrorist activity and financing (revised predicate offense by Anti-Money Laundering Office). As a member of United Nations, Thailand also accepts the eight Special Recommendations of the FATF to combat terrorist financing. The Ministry of Foreign Affairs is revising sections 4 and 7 of the penal code to criminalize terrorist acts. Terrorist offenses in Thailand will be severely punished.

Draft laws on transnational organized crime and terrorism, and on electronic transfer, are under consideration. The nation’s attorney general hopes soon to revise legal provisions relating to international cooperation and mutual legal assistance in this matter.

Viraphong Boonyobhas is an associate professor and vice dean of the Faculty of Law at Chulalongkorn University, Thailand. He also directs the Business Crime and Money Laundering Data Bank.

He has an extensive experience fighting money laundering as a member of the commission that drafted Thailand’s Anti–Money Laundering Law, the Legal Commission of the Office of Narcotics Control Board, and the subcommission of the National Anti-Corruption Office.

Professor Boonyobhas also worked for the minister of justice as a legal consultant and on narcotics and money laundering for the United Nations International Drug Control Programme (Project C 74).

Professor Boonyobhas is a barrister at law, having earned his LLB and LLM in criminal justice from New York University. He also holds a certificate in law enforcement from the Police Science Institution in Pennsylvania.
Response to Money Laundering and Terrorist Financing

Money laundering, organized crime, and terrorism are finding their way into regions and countries not yet experienced in controlling or fighting money laundering—countries where the laws may not address such crimes well.

Vietnam is among those low-income countries with financial and banking systems in the process of development. However, the laws of Vietnam have provisions on detecting and judging money laundering crimes. For example:

- Article 154 of the Criminal Code. Whoever illegally trades in goods, Vietnamese currency, foreign exchange, or precious gems and stones valued at 100 to 300 million Vietnamese dong (or under 100 million Vietnamese dong under other provisions of the Criminal Code), shall be fined 5 to 20 million Vietnamese dong and sentenced to up to 2 years’ rehabilitation without detention or to imprisonment for up to 2 years.

- Article 251 of the Criminal Code. Those who, by use of financial or banking or other transactions, legalize money or assets gained from illegal actions or use such money or assets in business or other economic activities shall be sentenced to 1 to 5 years’ imprisonment. Related provisions include: Article 66, Illegal fund raising; Article 180, Producing, storing, or circulating forged money, money orders, or bonds; and Article 181, Forging checks and securities or circulating same.

- Article 19, Law on Financial Credit Organizations: Credit organizations and other organizations doing banking business must not conduct or conceal any transaction involving any amount of money of illegal origin. In case of suspicion of illegal origin, credit organizations engaged in banking activities shall immediately report to the relevant authorities.

The Vietnamese financial system has some operational procedures to monitor and detect suspicious transactions. Article 26 of decree
64/2001/ND-CP of September 20, 2001, forbids any act of altering payment-related documents for fraudulent purposes; entering, attempting to enter, destroying, or illegally altering programs or data stored in computer systems used for payment; and making (or concealing the making of) payments for transactions of an obviously illegal nature.

There are other pertinent provisions as well: When opening an account and withdrawing from an account customers must register their transactions and produce their ID card or passport. Decree 63/1998/ND-CP of August 17, 1998, provides that to open a foreign exchange account at a bank, one must be a legal person. At the same time, it also provides very clear procedures for handling inbound and outbound foreign-exchange flows and cash deposits.

Credit organizations and other organizations engaged in banking activities are subject to inspection and supervision by the Inspector of the State Bank. However, the mechanism for reporting suspicious transactions is not yet clear. At some times, and in some places, therefore, there have been and will be cases of suspicion of money laundering of which we are not aware. Vietnam is trying its best to complete the mechanism.

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

A challenge to Vietnam in the transitional period is the large amount of money flowing outside the banking system. The source as well as the movement of illegal money is thus hard to control. The lessons learned by developed countries about gradual control of money in circulation will be quite useful for Vietnam.

Furthermore, because the Vietnamese economy is in transition, banking and financial technology is not yet highly developed. Not every economic entity or organization engaged in banking activities is computerized and networked, and thus data is not quite consistent.

**Needs for Technical Assistance**

Vietnam is concerned about money laundering and terrorist financing. I expect that international organizations will devise useful methods to help countries like Vietnam to convert their concern into action. The
support may include consulting on legal provisions, practical experience, financial assistance for economic development, and continuous training of managers for state agencies.

_Nguyen Dang Hong_ is Deputy Inspector of the State Bank of Vietnam (SBV). As the Head of Inspection Office of SBV, he solves many cases of corruption and crimes on banking related issues. He was also involved in developing decrees on the implementation of Banking Law.

Mr. Hong has a Master’s degree in Law from Research Institute of Legal and Government under National Center for socio-science and humanities of Vietnam and has a Bachelor on banking from Hanoi Banking Institute.
Thank you very much for the opportunity to participate in this Global Dialogue Series. The attendance of so many people at the senior level here today is a testament to the need and commitment to move forward.

The mission of the Asia/Pacific Group on Money Laundering (APG) is primarily to act as the focal point for regional cooperation on money laundering and terrorist financing. The objective of regional cooperation, in turn, is to implement international standards in those two areas. At present, the APG consists of 25 member countries and 13 observer countries. I am happy to say that Thailand is a founding member of the APG, and the other four countries present today are observer members.

The APG fits into a global network against money laundering. Along with other regional bodies, it is part of the global network of the Financial Action Task Force (FATF). We form a focal point in the Asia Pacific region, helping countries implement the 40 FATF Recommendations on money laundering and the 8 Special

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**Rick McDonell**, Head of the Secretariat, Asia/Pacific Group on Money Laundering
Recommendations on terrorist financing. We also help our members conduct self-assessment exercises and mutual evaluations to check compliance and progress. In that context, I am happy to say that the APG has begun cooperating with the World Bank and the International Monetary Fund on the money laundering and terrorist financing assessment component of the Financial Sector Assessment Program. Most recently we worked on an FSAP with Bangladesh.

Another very important aspect of the work the APG does relates to what Col. Peeraphan Prempooti was talking about—the actual methods of money laundering. The APG has now developed expertise in several areas, in particular underground banking and alternative remittance, that can be very important to policymakers.

Let me move on to the topics that are perhaps most important in relation to future urgent needs—technical assistance and training. Most countries around the table know that the APG conducts a program of technical assistance and training. From the feedback we have received so far, I can confidently say that the “big picture” needs of the countries in the region are as follows:

- Countries need to develop a national understanding of what exactly the international standards require them to do.

- Second, countries need to implement those standards in a speedy, comprehensive, and effective manner. As everyone knows, the attention paid to money laundering and terrorist financing has increased markedly in the last 12 months; there is much more pressure on countries to implement international standards.

- Third, countries must identify what they need to implement the standards. In that regard, the APG has been playing a role with the World Bank and the IMF to help coordinate the identification and satisfaction of country needs. Every participant in the videoconference has been provided with a copy of the APG matrix on technical assistance, a document we have put forward in an attempt to clarify what is necessary to meet the international standards and to get feedback from countries in the region on their needs.

Technical assistance must be delivered in a sequential manner, proceeding from legal infrastructure to financial infrastructure to law enforcement. Without an effective law, the rest of the system cannot
and will not operate effectively against money laundering. And without adequate infrastructure within the financial system, law enforcement is impossible.

Under international standards, an effective legal framework must contain provisions to criminalize money laundering, report suspicious transactions and other large-threshold transactions, identify customers and keep records, forfeit and confiscate assets, exchange of information, extend mutual legal assistance, and enable extradition.

In the financial area, a partnership must exist between the private financial sector and the commercial sector on the one hand, and among government officials and departments on the other hand. Basically, what is required of the financial sector is compliance with the law once passed, reporting and monitoring transactions, identification of customers, and training employees to recognize suspicious transactions.

Finally, in the law enforcement sector, the APG is attempting to garner support and training for judges and prosecutors. The goal is to acquaint them with the law as it exists in each country, the proofs required in money laundering cases, and the financial investigation skills required for effective enforcement.

It is important for the APG to know where countries have failed in implementing international standards, and even more important to get feedback from them on how the APG and other donors can redress those failures. The discussion today has been very helpful in identifying a number of immediate needs in several countries, and I hope that we will receive more detailed indications of needs as the effort to coordinate technical assistance proceeds.

The APG, in association with ASEAN, will be visiting seven countries in East Asia to assess needs for technical assistance and other needs related to the fight against money laundering.

On the horizon are several initiatives that countries would be well advised to understand and participate in. One is the FATF’s review of its 40 + 8 Recommendations. In this region, the APG is acting as a focal point for input to that review. The review will refine and change some of the existing standards, which will affect the requirements for implementing the standards.
I would advise all countries to pay close attention to the review of the FATF Recommendations. If they wish to contribute to that process, they are very welcome to do so—through the APG or directly to the FATF.

The working group on terrorist financing run by the FATF is preparing some guidance and interpretative notes to assist countries in the implementation of FATF’s eight Special Recommendations on terrorist financing. Again, countries participating in this videoconference are welcome to present their views about those eight Recommendations. If they wish to send their views to the APG secretariat, we will ensure that it reaches the FATF to be taken into account as the guidance notes are drafted.

Finally, under the new anti–money laundering and anti-terrorist financing methodology discussed by Margery Waxman and John Abbott—known as the Reports on Observance of Standards and Codes (ROSC) methodology, now recognized as an international standard—the APG will move toward conducting complementary assessments by providing experts to the IMF and World Bank.

The purpose of the APG secretariat is to help countries in the region meet international standards. So I encourage you not to hesitate to contact us for any assistance your countries might need.

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

Let me first thank the World Bank and the IMF for allowing me to attend this important event today.

I am in Thailand today as I was in Chiang Mai, speaking at a regional seminar organized by BIS (the Bank for International Settlements) and
SEACEN (South East Asian Central Banks). It was a one-week program for central bank officers from ASEAN countries, and it is a good example of ongoing capacity building activities in the region.

I would like to share with you some of the findings of a regional technical assistance project of the Asian Development Bank (ADB), then move on to discuss the importance of international cooperation for capacity building and technical assistance.

The ADB’s project, begun in May 2001, is nearly completed. Its $650,000 budget was financed from the Japan Special Fund within ADB. Nine countries participated, including three ASEAN countries (Indonesia, Philippines, and Thailand) and six small Pacific island countries—Cook Islands, Fiji Islands, Marshall Islands, Nauru, Samoa, and Vanuatu.

Three documents from the study should have been distributed to you today—the executive summary of the final report; Chapter 3 of the final report, which discusses the nine country studies and provides some assessment; and a research report on the negative effects of money laundering on economic development. The economic research report, one of few studies of this kind concentrating on the negative effects of money laundering on economic development, was conducted by a U.S. economist with Dewey Ballantine LLP, a consulting firm that worked with ADB on the project. It suggested several major points to be considered by policymakers in the financial sector, real sector, external sector, and offshore financial centers.

In the financial sector, money laundering undermines domestic capital formation by increasing the probability that individual customers or financial institutions will be defrauded and that the institutions themselves will become corrupt or even controlled by criminal interests. If left unchecked, money laundering erodes the integrity of financial institutions.

In the real sector, money laundering depresses growth, distorts investment, and decreases productivity, all of which have major implications for economic development. Money laundering proliferates corruption and crime at the expense of development. It can delay or reverse economic development in a major way.

In the external sector, money laundering diverts capital from development projects.
The study also found that money laundering neutralizes the development role of offshore financial centers. If such centers are not equipped with well organized anti-money laundering programs, they become vulnerable to capture, thus compromising whatever economic development value they may have.

The study concluded that effective anti-money laundering policies reinforce a variety of other good governance policies that help sustain economic development—particularly those that strengthen the financial sector. The study is uploaded on the APG’s website (currently in the section of 2002 Annual Meeting Documents).

In the country studies, several findings stand out, but I will concentrate on the significant need for technical assistance and training here. In all of the countries we studied, there was a severe lack of institutional capacity—not only in the Pacific island countries, but also in some of the major economies of Asia.

Training needs are critical, especially in the area of financial intelligence, financial analysis, financial investigation, and prosecution. In many of our member countries, training resources are invested first in banks and other financial institutions, rather than in the units that investigate or prosecute crimes affecting those institutions. Once a legal and institutional framework to fight money laundering is established, countries often find that investigators, prosecutors, and judges lack the necessary experience and skills to deal with this subject through their day-to-day responsibilities. These training needs are also obvious in FIUs, which typically employ experts quickly from many different ministries and agencies. Without experience in financial intelligence and investigation, an FIU cannot analyze suspicious transaction reports effectively or lead to investigations and prosecutions of money laundering. If a system is very well-established or organized in financial terms, but falls down at the stage of prosecuting and punishing offenders, that is encouraging news for criminals.

Thanks to the initiatives of the World Bank, IMF, and regional bodies like the APG, the Asia Pacific region has established a firm basis for regional cooperation on technical assistance and training for capacity building. As an important member of the regional cooperation, ADB is pleased to provide necessary technical assistance whenever possible,
either through technical assistance grant projects or financial sector governance loans.

**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.
Open Discussion on Challenges for Implementation

During the open discussion period, several themes emerged with particular force. These are summarized below.

Separate Law on Terrorist Financing

A participant asked why a special terrorism law was needed to combat the financing of terrorism when an act to control money laundering was already in place.

A World Bank representative responded that terrorist financing is slightly different from pure money laundering. For example, most money laundering situations involve illicit funds from illicit sources. Funds intended to finance terrorism, by contrast, are often clean, but they are intended for illicit purposes. Therefore, modifications of the laws may be necessary to cover some of these transactions. Terrorist financing laws also put an additional focus on underground banking, which may not have been adequately addressed in the original money laundering law.

Thailand’s Money Laundering Law

Thailand’s representatives elaborated further on their country’s money laundering law. Under Thai legislation, the Anti-Money Laundering
Organization (AMLO) has jurisdiction over money laundering and other serious offenses, even if they are committed outside the kingdom of Thailand. If the crime has an impact in Thailand, then AMLO may investigate the perpetrators, whether they are Thais or foreign nationals.

Because AMLO is the member of the APG and the Egmont Group for financial intelligence units, most information generated by such investigations would be shared with other member countries upon request. Furthermore, Thailand would also ask for cooperation through bilateral treaty channels, especially with the United States. Thailand and the United States have a special bilateral treaty covering drug trafficking and bank fraud. In dealing with countries with which they do not have a bilateral treaty, Thailand would use reciprocal methods.

**Mongolia’s Vulnerability**

Mongolia is particularly exposed to the problem of money laundering, and prima facie evidence of a problem exists. Moreover, the consequences of money laundering for Mongolia could be particularly difficult.

Money, like water, finds a path of least resistance. Currently the regulatory, legal, and institutional barriers to money laundering are quite low in Mongolia. The proximity to Russia, where money laundering is rife, also warrants concern, as do porous borders, the large cash economy, and a network of informal lenders.

Money growth and financial flows have changed abruptly in the last two years, with the money stock and bank credit expanding quickly. Property prices, too, have been increasing sharply, and there has been a sharp increase in citizens and outsiders interested in establishing banks and nonbank financial institutions. While Mongolia is experiencing high monetary growth, its price levels and exchange rates are stable. One explanation for this occurrence—others are possible—is money laundering.

The consequences of money laundering could be particularly severe in Mongolia. Its small size could allow money laundering to become quite significant in relation to the size of the economy. Given the country’s homogeneous nature and current exposure to instability, it would be particularly affected by the further instability arising from money laundering.
Cambodia’s Border Casinos

A participant asked whether Cambodia had a policy to monitor or control the casinos on its border with Thailand. A Cambodian representative responded that Cambodia’s law is intended to protect the entire kingdom from money laundering. A financial intelligence unit will be required to detect all of the money laundering cases.

Learning from Experience

A representative of the Asia/Pacific Group on Money Laundering (APG) suggested that countries should learn from the experience of countries that have introduced anti-money laundering systems. One very useful idea is the creation in each country of a national coordination committee involving all relevant agencies and ministries. Throughout the Asia Pacific region this has been very productive in a number of countries—among them Thailand and Malaysia.

Although the country has to start by putting laws in place, it can begin building its human and financial resources while the laws are being drafted and enacted. Typically the ministry in charge of combating terrorist financing is different from the ministries and agencies which are in charge of fighting money laundering. The ministries or agencies in charge of terrorist financing appear more likely to delay capacity building.

Moving Forward

The World Bank suggested a further regional dialogue on money laundering and terrorist financing. The APG representative reiterated that, in APG’s experience, regional dialogues help raise awareness and identify needs—but a country-by-country dialogue would be even more valuable for both purposes. The APG representative also cautioned that it is impossible to learn the entire requirements of a particular country without intensive discussion with that country.
I would like to thank everybody for a very comprehensive and informative discussion today. I will summarize some of the key issues that we have discussed over the last three hours.

It is crucial to have a legal framework in place before pursuing the other elements of an anti–money laundering and combating the financing of terrorism (AML/CFT) regime. Once the legal framework is developed, it is necessary to prepare regulations for financial institutions and other relevant agencies that participate in the AML/CFT regime.

But even before developing laws and regulations, it is usually necessary to raise the awareness of the public, legislature, and senior government officials about the dangers of money laundering and the negative effects upon a country. The impact of money laundering on the financial sector and on capital formation has already been discussed thoroughly today.

Rick McDonell mentioned the need to sequence technical assistance. An AML/CFT law and its implementing regulations must be completed before we move ahead with the development of, say, a financial intelligence unit. If we do not respect the sequencing of
technical assistance, we may well be wasting time, money and scarce human resources.

I encourage all participants here to continue working with the Asia/Pacific Group on Money Laundering. The group has a great deal of expertise and its members have a significant amount of experience to share with others in the region. I would like to thank Thailand for offering its assistance to other countries that are developing AML/CFT systems. It is very important to learn from your neighbors experiences in the region – those that have already experienced the challenges of developing an anti-money laundering regime. Turn to your colleagues in the region, because that is where you’re going to learn about common problems and how to address them.

Daniel Kaufmann and Motoo Noguchi made some good points on the impact of money laundering on an economy and country development. Cross-border exposure is particularly important in your region and I noted that several participants mentioned smuggling problems. International cooperation and the training of customs officials are highly important in this regard.

Continuing with the notion of the proper sequencing of technical assistance, capacity building would follow development of a legal framework. Capacity building would include training for financial supervisors, the financial sector, judges, prosecutors, financial investigators and assistance in developing an FIU.

One speaker mentioned the importance of a public-private partnership. The World Bank and the IMF are now discussing a possible second round of global dialogues that may involve the private sector in partnership with governmental policy makers to discuss barriers and challenges related to the implementation of an effective AML/CFT regime.

More than one speaker noted that the World Bank and IMF have limited participation regarding law enforcement activities associated with AML/CFT regimes. However, we are currently developing a global database listing AML/CFT country technical assistance needs which will also contain law enforcement needs. The database will be posted on the World Bank–IMF Web site and will be accessible to providers and donors of technical assistance. We will encourage donors and providers of AML/CFT assistance to utilize the database to identify any gaps in training and technical assistance.
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/

Background Empirical Materials for Discussion

Note: All data contained here is preliminary and for discussion only, reflecting research-in-progress.
Money Laundering and Terrorism — 2002 Preliminary Regional Averages Based on Reports from Firms in 80 Countries

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

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

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

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

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

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

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

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