

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

***Regional Videoconference:  
Eastern and Southern Africa Region—  
Kenya, Mauritius, Mozambique,  
Namibia, South Africa, Swaziland,  
Tanzania, and Uganda***





World Bank and IMF Global Dialogue Series

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

***Regional Videoconference:  
Eastern and Southern Africa Region—  
Kenya, Mauritius, Mozambique,  
Namibia, South Africa, Swaziland,  
Tanzania, and Uganda***

Sponsored by the World Bank Financial Sector and the World Bank Institute in partnership with the International Monetary Fund and Europe and Central Asia Region of the World Bank

Copyright © 2003 The International Bank for Reconstruction and Development  
and the International Monetary Fund. All rights reserved.

## Contents

A Worldwide Challenge.....	vii
The Fourth Videoconference in the Global Dialogue Series on Anti-Money Laundering and Combating the Financing of Terrorism.....	xi
Videoconference Agenda—September 11, 2002.....	1
Key Issues Raised in the Dialogue.....	3
<b>Speaker Presentations.....</b>	<b>7</b>
Welcome and Introduction.....	7
<i>Gerard Byam and Ahmet I. Soylemezoglu</i>	
The World Bank/IMF Response to Money Laundering and Terrorist Financing.....	8
<i>Richard Zechter and R. Barry Johnston</i>	
Governance in the Financial Sector: The Broader Context of Money Laundering and Terrorist Financing.....	12
<i>Daniel Kaufmann</i>	

Country Presentations—How Have Governments Responded? . . . . . 19

The Urgency of Regional Collaboration . . . . . 37

Wrap-up . . . . . 45  
*John McDowell*

Annex A: Money Laundering and its Broader Context . . . . . 47

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

***Cesare Calari***

*Vice President, Financial Sector, World Bank*

***Frannie Léautier***

*Vice President, World Bank Institute*

***Stefan Ingves***

*Director, Monetary and Exchange Affairs Department,  
International Monetary Fund*

In recent years, and especially since the events of September 11, 2001, worldwide efforts to combat money laundering and the financing of terrorism have assumed heightened importance. Both are global problems that not only threaten security, but also compromise the stability, transparency, and efficiency of financial systems, thus undermining economic prosperity.

James D. Wolfensohn, president of the World Bank Group, has declared that the global community should act “where it really matters”—and, economically, money laundering really matters. At least US\$1 trillion is laundered annually using increasingly sophisticated methods of moving funds across borders.

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

Money laundering and the financing of terrorism can have devastating economic and social consequences for countries, especially those in

the process of development and those with fragile financial systems. The economy, society, and ultimately the security of countries used as money laundering platforms are all imperiled. Here are just a few examples of how illicit financial flows can affect the economy and institutions of the host country:

- Financial institutions that accept illegal funds cannot rely on those funds as a stable deposit base. Large amounts of laundered funds are likely to be suddenly wired out to other financial markets as part of the laundering process, threatening the institution's liquidity and solvency. A financial institution's reputation and integrity can be irrevocably harmed through its involvement in money laundering or financing terrorism.
- Local merchants and businesses may find that they cannot compete with front companies organized to launder and conceal illicit funds. Many such front companies offer their services and goods at below-market rates and even at a loss. Because their primary objective is the laundering of money, they do not need to compete in the marketplace and make a profit for their owners.
- Money laundering may also distort some economic sectors and create instability in their markets. Money launderers may channel funds to sectors or areas where funds are unlikely to be discovered, whether or not investment is needed or real returns are offered. The often sudden departure of investments from those sectors may impair the industries involved.
- Currencies and interest rates can be distorted by money launderers' investment practices, based as they are upon factors other than market returns.
- Money laundering and terrorist financing do nothing for the reputation of the host country. The loss of investor confidence that follows revelations of large-scale involvement in such activities can sharply diminish opportunities for growth. Once a country's reputation is tarnished, it takes years to repair.

The global agenda to curb money laundering and the financing of terrorism calls for a cooperative approach among many different international bodies. Efforts to establish an international standard against both problems have been led by the 29-member Financial Action Task

Force (FATF), which has come forth with its “40 + 8” recommendations—the original 40 in the area of money laundering and 8 more related to the financing of terrorism.

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

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



**Cesare Calari**  
*Vice President*  
*Financial Sector*  
*World Bank*



**Frannie Léautier**  
*Vice President*  
*World Bank Institute*



**Stefan Ingves**  
*Director*  
*Monetary Affairs and*  
*Exchange Department*  
*International Monetary Fund*



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

**Margery Waxman**

*Director, Financial Market Integrity, World Bank*

**Daniel Kaufmann**

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

**R. Barry Johnston**

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

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

The Global Dialogue was a live videoconference conducted over the World Bank’s Global Distance Learning Network. Three hours in length, it involved more than 112 participants from client countries who represented financial intelligence units, central banks, ministries of finance, ministries of justice, offices of attorneys general, ministries of internal affairs, ministries of trade and industry, national committees on financial crime, police services, revenue authorities, presidential administrations, and other institutions.

The event provided a unique opportunity for eight African countries, the World Bank, the International Monetary Fund (IMF), the Eastern and Southern Africa Anti–Money Laundering Group (ESAAMLG), the African Development Bank (AfDB), and the United Nations Global Programme against Money Laundering (GPML) to discuss the challenges they face. The participants learned about progress in each country and identified the type of assistance they need to make further progress. Moreover, they recognized the paramount importance of framing and addressing the challenge of money laundering within the broader context of improving governance and combating corruption and fraud in the private financial and public sectors. Efforts to fight money laundering and the financing of terrorism cannot be effective in isolation from national and transnational governance, or by merely adopting conventions and declarations.

The regional 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.



**Margery Waxman**

*Director*

*Financial Market Integrity  
World Bank*



**Daniel Kaufmann**

*Director*

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



**R. Barry Johnston**

*Assistant Director*

*Special Financial  
Supervisory Issues Division  
International Monetary Fund*

## **Videoconference Agenda—September 11, 2002**

### ***Gerard Byam, Moderator***

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

### ***Ahmet I. Soylemezoglu, Moderator***

*Senior Banking Sector Specialist, Financial Sector, Africa Region, World Bank*

### **Welcome and Introduction**

- Gerard Byam and Ahmet I. Soylemezoglu

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

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

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

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

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

- Joseph Kamau, Director, Banking Fraud Investigations Department, Central Bank of Kenya
- Dev Bikoo, Director, Financial Intelligence Unit, Mauritius
- Navin Beekarry, Commissioner of the Independent Commission Against Corruption, Mauritius
- José Ibraimo Abudo, Minister of Justice, Mozambique

- Frans van Rensburg, Chairperson, Anti-Money Laundering Task Force of Namibia
- Murray Mitchell, Special Advisor, Financial Intelligence Centre, National Treasury of South Africa
- Musa Fakudzu, Principal Secretary, Ministry of Finance, Swaziland
- Humphrey P.B. Moshi, Associate Research Professor, Economic Research Bureau, University of Dar es Salaam, Tanzania
- Edward Katimbo-Mugwanya, Chairman, Anti-Money Laundering Committee, and Executive Director, Bank Supervision Unit, bank of Uganda

The representatives from Kenya, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, and Uganda were asked to address the following issues:

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

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

- Herman Kessy, Interim Executive Secretary, Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG)
- Cecelia Akintomide, Principal Legal Counsel, Legal Department, African Development Bank
- Mohamed Bourenane, Principal Investment Economist, African Development Bank
- Marie-Christine Dupuis, Advisor, United Nations Global Programme against Money Laundering

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

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

## **Key Issues Raised in the Dialogue**

*John McDowell, Rapporteur*

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

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

- The involvement of attorneys, accountants, and other gatekeepers in money laundering operations
- Regional instability
- Socioeconomic and political environments conducive to money laundering and the financing of terrorism
- Cash-based economies and the growth of the informal remittance sector
- Law enforcement and judicial personnel with inadequate expertise and training

- Increased criminal use of technological innovations
- Poor corporate governance and insufficient corporate transparency

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

- Capacity building for the financial sector and financial regulators
- Surveillance equipment and technical assistance for cross-border security
- Awareness building campaigns
- Assistance in developing and implementing an enabling legal and regulatory framework
- Development of financial intelligence units, including support and training in information technologies
- Institutional capacity building through training, financial assistance, and sharing of best practice
- Enhanced international and regional cooperation
- Training for law enforcement and judicial authorities and financial sector professionals

### **Issues Raised by Other Speakers**

#### *African Development Bank*

- Money laundering and the financing of terrorism are issues that confront society as a whole. They are governance problems. They frustrate development initiatives
- Awareness of the issues must be raised throughout the region
- The countries of the region need help exchanging information and sharing expertise
- Local capacity to counter money laundering and the financing of terrorism must be increased

## *ESAAMLG*

- More comprehensive and uniform legislation on money laundering and terrorist financing is needed in the region
- An effective mechanism for reporting suspicious transactions should be developed
- Training and capacity building are needed in finance, law enforcement, and judicial systems
- Rules and statutes related to money laundering and terrorist financing must be extended to nonbank financial institutions
- The lack of modern payment systems hinders efforts to fight money laundering and prevent terrorist financing
- The absence of financial intelligence units and insufficient regional cooperation impede efforts to fight money laundering and prevent terrorist financing
- Awareness of the issues must be raised among various stakeholders

## *UN Global Programme against Money Laundering*

- Effective efforts to fight money laundering and prevent terrorist financing require close cooperation among many partners.



## Speaker Presentations

### Welcome and Introduction

- **Gerard Byam**, Sector Manager, Financial Sector, Africa Region, World Bank
- **Ahmet I. Soylemezoglu**, Senior Banking Sector Specialist, Financial Sector, Africa Region, World Bank

We would like to welcome all participants including staff of the World Bank and IMF to the global dialogue on combating money laundering and terrorist financing activities. I am especially grateful for the substantial representation of participating countries—Kenya, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, and Uganda—and from the several institutions that are here today. We are also very honored by the presence of Barry Johnston of the International Monetary Fund (IMF), as well as several colleagues from multilateral and regional institutions. Representatives have come from the Eastern and Southern Africa Anti–Money Laundering Group (ESAAMLG), the African Development Bank (AfDB), and the United Nations Global Programme against Money Laundering (GPML).

This event’s importance lies in its broader context—enhancing the confidence of the nationals of all borrowing countries in the legitimacy

and soundness of financial systems. This is essential if we are to broaden access to financial services throughout Africa. In this regard the World Bank has, for a long time, supported our client countries in capacity building and in the regulation and supervision of financial markets. A part of those efforts is anti-money laundering regulation.

The horrible terrorist events of one year ago were a reminder of the need to intensify our efforts to curb the abuse of financial systems. We have organized this series of global dialogues to bring together those whose expertise and ideas can guide us in our work.

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



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



*Before joining the World Bank in 1994, **Ahmet I. Soylemezoglu** held various positions in government, business, and academia. He served as advisor to the president and the prime minister of Turkey and as deputy undersecretary for defense industries at the Turkish Ministry of Defense.*

*He also served as chairman and CEO of Sumerbank and as a director of Turkey's Export-Import Bank. He has taught economics and finance at the State University of New York and at Bilkent University in Ankara, Turkey.*

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

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

The World Bank recognizes that money laundering and the financing of terrorism are problems of global concern. They undermine financial stability and the integrity of financial systems, and can pose a serious threat to development. Global cooperation is needed to address these

activities. Action must encompass financial sector supervision and regulation, good governance, judicial and legal reform, and effective law enforcement.

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

In April 2001 the World Bank's board agreed to step up its anti-money laundering efforts, working in close cooperation with the International Monetary Fund. Specifically, the board decided that more attention should be placed on anti-money laundering issues in the Bank's diagnostic work, and that the Bank should be prepared to provide more technical assistance to build capacity in borrower countries. At the same time, the board made clear that the Bank's role should be consistent with its development mandate and that it should not become involved in law enforcement activities.

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

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

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

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

Finally, the Bank and the Fund have launched an initiative to improve international coordination of technical assistance for anti–money laundering and combating the financing of terrorism. On April 22 we hosted a meeting in Washington to develop a mechanism for coordinating technical assistance. Participants included the FATF, FATF-style regional bodies including the ESAAMLG secretariat, the United Nations Global Programme against Money Laundering, the United Nations Committee on the Financing of Terrorism, regional development banks including the African Development Bank, and key bilateral technical assistance providers. As part of this initiative, we are working closely with the FATF-style regional bodies, including ESAAMLG, to help them coordinate and meet the technical assistance needs of their members.

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



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

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

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

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

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

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

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

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

Beyond assessments, we have significantly stepped up our technical assistance work. In collaboration with the Bank we have worked to strengthen countries' anti-money laundering and terrorism finance laws and regulations, aid the implementation of those laws and regula-

tions, and bolster the procedures used by government entities responsible for enforcement. We have helped countries set up legal frameworks and establish financial intelligence units. We have been developing training and awareness programs and collaborating closely with other international agencies.

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



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

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

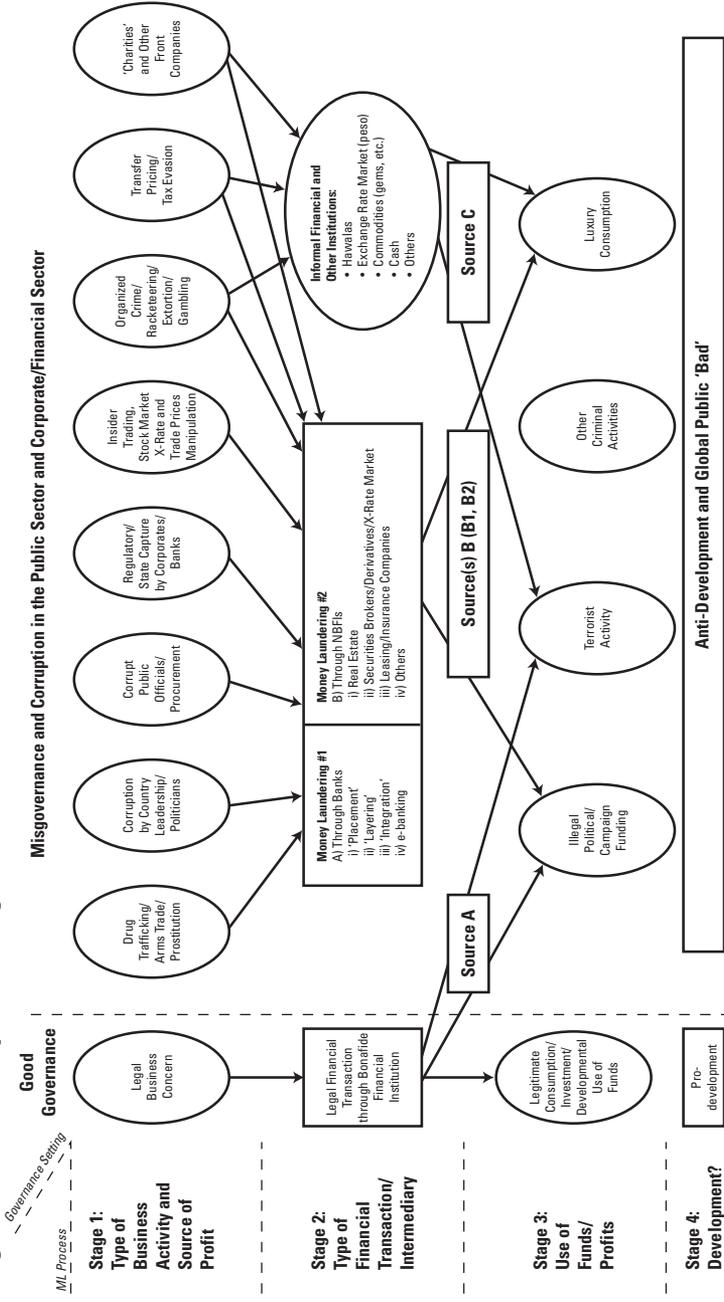
## **Governance in the Financial Sector: The Broader Context of Money Laundering and Terrorist Financing**

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

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

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

# Misgovernance, Money Laundering, and Terrorism



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

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

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

Yet transactions through non-banking financial institutions in the formal financial sector is not the only alternative conduit mechanism to the banking system. In fact in many countries informal financial institutions, such as hawalas and other such informal financial institutions,

play a very important role. As the focus on enforcement, supervision, and institutional development in the formal banking (and non-banking) takes place, it is important to consider that there are substitutes to the formal financial institutions for money laundering. Such substitutes vary from country to country as well, and need to be addressed in tandem with the more conventional approaches being taken for tighter supervision and enforcement of the banking sector.

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

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

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

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

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

- It is crucial to understand and diagnose the main manifestations of misgovernance and corruption in both the public and private sector in order to be able to develop an effective, comprehensive national program to fight money laundering. Country specificity is key.
- It is very important to diagnose what the main sources of laundered funds are. They will vary significantly from country to country—drug trade, drug cartels, arms trade, the political arena, polit-

ical funding, grand scale procurement, budgetary corruption, tax evasion, insider trading. Understanding the key sources is an absolute priority.

- We must distinguish and understand the differences between money laundering through the official banking system and through the non-banking system, both official and informal. The informal institutions play a very important role in some countries.
- A deeper understanding of the not-so-simple relationships between money laundering and terrorism financing is needed. It is very important in some countries; not as important in others. There are other crucial complexities. Terrorist activities can be financed by profits from so-called legal activities, and not just from illegal and laundered funds. To stop terrorism funding one has to go beyond merely looking at money laundering.
- We must move beyond narrow money laundering rules, laws, and regulations. Surely we will hear today how many new regulations are being passed in this area. Those are important, but on their own they are not going to make most of the difference. Politically, we have to tackle money laundering and terrorism financing as part of a commitment to improve governance in general and fight corruption within the public, private, and financial sectors.
- Finally, on the power of data: being informed through empirical evidence is a major challenge, which will continue to assist in addressing myths and misconceptions in this field, in monitoring progress in this area, as well as in prioritizing measures and actions, and placing AML within a rigorous and more comprehensive governance context. In this respect, further gathering of worldwide information on this issue through surveys and other such diagnostic methods of importance, as is the utilization of simple tools based on economic empiricism. For instance, an estimate of the 'cut' that had to be given to intermediaries to implement laundering of funds in the United States in the eighties was in the order of about a 6% fee; while nowadays such estimate exceeds 25%. The extent of the increase in this fee is a simple, powerful, and telling indicator of how much more costly it has become to launder funds (at least in the US), and thus it constitutes one monitoring indicator of progress.



*In addition to his role as director for Global Governance, **Daniel Kaufmann** also directs the World Bank Institute's (WBI) capacity building efforts in Latin America. A recognized leading expert in the field of governance, he has pioneered new empirical and survey methodologies, and with his team he supports countries that request good governance and anticorruption assistance through a rigorous empirical, systemic, and strategy-driven approach. He frequently advises state leaders, governments and civil society. Before joining*

*WBI in 1998 as manager, Dr. Kaufmann was lead economist in the Development Economics Group and also was the first chief of mission in Ukraine in the early nineties. He was a member of the team that produced the 1991 World Development Report on distilling the key lessons from development experience. Dr. Kaufmann has published extensively on issues of economic development, privatization, governance, the unofficial economy, industrial and trade restructuring, corruption, transparency, and urban and labor economics. A Chilean national, he received bachelor degrees in economics and statistics from the Hebrew University of Jerusalem, and an M.A. and Ph.D. in economics from Harvard University, where he was also a visiting scholar in the late nineties.*

## Country Presentations— How Have Governments Responded?

- **Joseph Kamau**, Director, Banking Fraud Investigations Department, Central Bank of Kenya

### *Response to AML/CFT*

Kenya has taken action against money laundering and terrorist financing because both have social, economic, and even political force if left unchecked. The bomb blast on August 19, 1998, for example, claimed 254 lives and injured thousands of Kenyans. For logistical reasons, however, we have not moved as far as we would have liked.

On February 26, 2002, we established a national task force on money laundering. Because money laundering occurs across different sectors and disciplines, the task force is multidisciplinary. It draws from the Ministry of Finance, Ministry of Trade and Industry, police forces, Criminal Investigation Department, Office of the President, Office of the Attorney General, Central Bank of Kenya, Banking Investigations Department, Capital Markets Authority, Kenya Revenue Authority, Immigration Department, and Insurance Commission. The task force is coordinated by the Ministry of Finance, while the Central Bank of Kenya provides secretarial services.

Money laundering and combating the financing of terrorism can be effectively dealt with only through specific acts of parliament. In this regard, a bill based on the United Nations model has been drafted and is awaiting discussion by stakeholders. We foresee some operational problems, particularly with regard to the basing of the financial intelligence unit. An antiterrorism bill is in the final stages of completion.

Plans are underway to train law enforcement agents, prosecutors, bank examiners, and judicial officers to detect and fight money laundering and terrorist financing. Money laundering often takes place across borders, and the government of Kenya recognizes that efforts to fight it will involve international operations. In this regard, the government is cooperating with regional and international agencies and governments. Kenya is among the founding members of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). We currently chair the law enforcement subgroup for the region.

Kenya has ratified all United Nations treaties and resolutions on money laundering and terrorist financing, including Resolution 1373 of 2001. We are now adapting the resolution to domestic conditions. We have already entered into isolated mutual assistance agreements with other jurisdictions, but the national task force on money laundering will soon recommend to the attorney general the need for a mutual assistance act with a wide scope.

Some activities underlying the money laundering process are already covered by various acts of parliament. In order to ensure that the proposed legal framework is compatible with existing legislation, the task force is identifying relevant acts of parliament for review.

Knowing that the first step in combating money laundering is to raise awareness about it, the task force also plans to conduct seminars to educate and inform key policymakers, politicians, law enforcement officers, and other stakeholders.

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

We need to amend our criminal code to incorporate comprehensive policies for investigating, tracing, freezing, and seizing laundered assets. Institutions must be aligned to monitor investigations and pros-

ecute suspicious transactions. Financial institutions are already required by prudential regulations to report suspicious transactions to appropriate agencies. However, in the absence of an enabling legal framework successful prosecutions have not been possible.

In anticipation of new legislation, law enforcement authorities have formed an antiterrorism unit to deal with intelligence as well as actual threats.

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

Money launderers, like most organized criminals, seek out jurisdictions that are unlikely to detect their activities, and Kenya, like most of the developing countries, has certain attributes that are conducive to money laundering. The recently liberalized economy remains cash based. Registration is not comprehensive. Alternative remittance system has parity with banking. Law enforcement and judicial officers have insufficient exposure to and experience with money laundering. Neighboring regions are unstable and have different legal systems.

### *Needs for Technical Assistance*

We need assistance in finalizing an appropriate registration framework. We have been contacting other jurisdictions for necessary information. We also need technical assistance in training of trainers, sensitization of policymakers, and training of law enforcement officers. To establish the financial intelligence unit, we will need help setting up databases and developing appropriate infrastructure and networks.

*Joseph Kamau* directs the Banking Fraud Investigations Department at the Central Bank of Kenya.

- **Dev Bikoo**, Director, Financial Intelligence Unit, Mauritius
- **Navin Beekarry**, Commissioner, Independent Commission against Corruption, Mauritius

The response of Mauritius to money laundering issues has been quick and comprehensive. I will outline our approach, main challenges, and needs for assistance. Mr. Beekarry will tell you about our Independent Commission against Corruption, which is just now being set up.

## *Response to AML/CFT and Institutional Arrangements to Combat Money Laundering and Terrorist Financing*

Our crusade against money laundering started in June 2000, when Mauritius adopted its Economic Crime and Anti-Money Laundering Act. Even before that, the Bank of Mauritius was applying best practices in combating money laundering, efforts recognized in several United Nations reports.

Mauritius was among the first six countries to commit to OECD standards. In October 2000 we committed to the UN Global Programme against Money Laundering. So at the international level, Mauritius has been doing what needs to be done to fight money laundering. We are also a founding member of ESAAMLG and have been very active in the group.

Domestically we have initiated deep-seated reform of our system of supervising financial services by introducing an integrated regulatory and supervisory framework for the financial services sector. The plan was approved by the cabinet in early 2001. A financial services commission was created to take over the supervisory role of the Mauritius offshore authority. It is expected that in three years the new commission will integrate with the central bank, so that Mauritius will have a single regulator for the financial services sector.

We draw a distinction between regulations and supervision, on the one hand, and promotion, on the other. The financial services promotion campaign is responsible for promoting financial services and developing human resources for the sector. We believe that training financial services professionals plays an important role in countering money laundering.

In response to the tragedy on September 11, we introduced three major pieces of legislation: the Prevention of Terrorism Act, the Prevention of Corruption Act, and the Financial Intelligence and Anti-Money Laundering Act. Earlier legislation was repealed. In the new legislation, a central agency is responsible for receiving, requesting, analyzing, and disseminating to investigatory and supervisory bodies financial information concerning suspected crimes, including the financing of terrorist activities. The agency enforces compliance by banks, financial institutions, cash dealers, and a number of relevant professions.

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

With all the recent changes, we are undergoing an educational process that is one of the main challenges we face in the coming months.

Mauritius is an investment gateway for India, China, and, to some extent, Eastern and Southern Africa. As a regional financial hub, Mauritius is exposed to the same risks as London or New York. We must be alert to the latest sophisticated techniques used by money launderers. Meeting these challenges is very important for us, as we wish to advance our global position in financial services.

Mauritius is also developing into a “cyberisland.” More international institutions are using Mauritius as a platform, because Mauritius has good infrastructure and relatively low labor costs. There are risks associated with such development, notably the risk of cybercrime. We will need help in facing those risks.

### *Needs for Technical Assistance*

Mauritius can benefit from capacity building in human resources and software adaptation. We also need to develop relations with institutions that are experienced in fighting money laundering and terrorist financing with sophisticated techniques.

*Dev Bikoo was appointed director of the Mauritius Financial Intelligence Unit in August 2002. From April 2001 to July 2002, he was senior advisor at the Ministry of Economic Development, Financial Services, and Corporate Affairs, where he worked on regulatory frameworks, promotion, and human resources for the financial services sector. He is closely associated with offshore business development in Mauritius, having been responsible for offshore banking at the Bank of Mauritius (1988–92) and at the Mauritius Offshore Business Activities Authority (1996–2001).*

*Mr. Bikoo is a part-time lecturer at the University of Mauritius and the University of Technology, where he teaches public finance and offshore finance at the graduate level. He holds an MSc (Econ) from the London School of Economics, and an MPhil in monetary economics and econometrics from the University of Southampton, UK. His latest report for the Financial Services Promotion Agency of Mauritius is “Training Needs of the Financial Services Sector: Analysis and Proposals.”*

*Navin Beekarry is commissioner of the Independent Commission Against Corruption (ICAC). He was appointed in 2002. Mr. Beekarry has more than 16 years of experience in the Attorney General’s Office. He holds an LLM degree from the London School of Economics, where he specialized in international economic law and European Union law.*

- **José Ibraimo Abudo**, Minister of Justice, Mozambique

I want to thank the World Bank and the IMF for convening this video-conference, which takes place one year after the events of September 11, 2001. The government of the Republic of Mozambique reiterates its commitment to fighting organized crime and international terrorism.

Our basic legislation on credit activity of financial corporations, terrorism, and money laundering dates to 1999. After September 11, we signed the UN convention on the elimination of terrorist funding. Ratification is pending, as is passage of new legislation on money laundering. In February 2002 the Bank of Mozambique issued regulations binding the financial institutions, complementing earlier regulations from the Minister of Foreign Affairs, the Minister of Justice, and the central bank.

*José Ibraimo Abudo is minister of justice of Mozambique. He served earlier as a judge and deputy judge in the Sofala region. He has extensive accounting and banking experience, having worked with the Bank of Mozambique and the Commercial Bank of Angola. In preceding years he held the position of senior accountant, managing the military accounting services.*

*Mr. Ibraimo Abudo is a graduate of the University of Lisbon, where he obtained a master's degree in corporate law. He is an author of three publications and a member of the board of directors of the Community Development Foundation.*

- **Frans van Rensburg**, Chairperson, Anti-Money Laundering Task Force of Namibia

### *Response to AML/CFT and Institutional Arrangements to Combat Money Laundering and Terrorist Financing*

Namibia actively participated in global and regional efforts to promote national legislation on money laundering and international participation in anti-money laundering efforts. We attended most of the 11 sessions of the United Nations ad hoc committee that was set up to produce a comprehensive international convention against organized crime. Namibia's National Drug Control Commission supported the efforts of the International Narcotics Control Board to counter money laundering. Namibia also supported the establishment of the ESAAMLG in Arusha, Tanzania, in August 1999 and participated in an interministerial task force that accompanied the ministers to Arusha to move the process forward. The final product of the task force is the Palermo

Convention, which Namibia signed in December 2000 and ratified in August 2002.

In 2000 Namibia passed legislation to support international efforts to curb organized crime. The act, which took effect in 2001, provides for sharing of evidence, mutual execution of sentences, compensatory orders, and the confiscation or transfer of proceeds of crime between foreign states. The earlier Extradition Act of 1996 provides for the extradition of fugitive offenders, including money launderers.

The minister of justice recently approved a bill that will criminalize participation in organized criminal groups and the laundering of the proceeds of crime. Drafted with the help of Namibia's financial institutions and soon to be submitted to parliament, the bill provides for the monitoring and investigation of suspicious transactions. A financial intelligence center will be established for this purpose, and a money laundering advisory council will be established to advise the minister of finance on policies and measures to combat money laundering and to monitor the performance of the center.

Another bill, already introduced in parliament, would establish an anti-corruption commission to exchange information and otherwise cooperate with other countries in investigations of corrupt practices.

The government of Namibia is determined to cooperate in the fight against terrorism. Shortly after receiving Resolution 1373 from the UN Security Council, a draft antiterrorism activities bill was completed; it is now being submitted to parliament. The draft bill criminalizes acts of terrorism as well as membership in, and support for, proscribed organizations.

At present Namibia has no legislation that would enable monitoring, investigation, and prosecution of suspicious transactions. Nevertheless, the two regulatory authorities in Namibia—the Bank of Namibia and the Namibia Financial Institutions Supervisory Authority—have instructed all licensed banks and other financial institutions to report suspicious transactions.

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

A key challenge for Namibia is to get all the pieces of draft legislation discussed above through our national parliament.

**Frans van Rensburg** is chief executive officer of the Namibia Financial Institutions Supervisory Authority and chairman of the Anti-Money Laundering Task Force of Namibia.

Mr. van Rensburg joined the Namibian government as an economist in 1980. After working for Ned Bank for two years, he joined the Ministry of Finance in South Africa, where he worked until 1991. Upon returning to Namibia, he joined the Ministry of Finance, where he established the regulatory authority. He became the first chief executive officer of the Namibia Financial Institutions Supervisory Authority in 2001.

Mr. van Rensburg studied at the University of Potchefstroom and completed a B.Comm., with honors, in economics; he also received a diploma in banking at the Institute of Bankers and a diploma in public administration at the University of Pretoria. In addition, he holds a B.Admin., with honors, from the University of Pretoria.

Mr. van Rensburg chaired the board of directors of the National Special Risk Association and was a founder of the Namibian Stock Exchange, on whose board he still serves.

- **Murray Michell**, Special Advisor, Financial Intelligence Centre, National Treasury of South Africa

Around me are representatives of the South African National Treasury, the Financial Intelligence Center, all our law enforcement authorities, supervisory authorities, and the South African Reserve Bank. We all thank you for coordinating and creating this platform for all of us to share information today, and to say hello to friends. It is nice seeing faces that we know and recognize.

### *Response to AML/CFT and Institutional Arrangements to Combat Money Laundering and Terrorist Financing*

An act creating the Financial Intelligence Center and the Money Laundering Advisory Council was promulgated in February of this year. The two institutions report to the minister of finance and to parliament. The promulgation allowed us to develop a budget from the beginning of this year and to set about establishing the center.

The first key area of work has been drafting regulations. The first round was completed just before this videoconference. The draft regulations now have to go through a process of consultation with the minister, then to the Money Laundering Advisory Council, and finally to parliament for ratification around mid-November. These first-round regulations will focus on identification of clients and customers,

accountable institutions, verification of identifications, record-keeping obligations, and reporting of suspicious transactions.

Anti-terror legislation is also under way. A draft bill which envisages authorizing the Financial Intelligence Center to receive all suspicious reports dealing with the financing of terrorism might require amendment of the February 2002 act. The cabinet has agreed to fast-track the anti-terror bill to get it through parliament as soon as possible.

Also under discussion is legislation dealing with corruption. Here, too, the Financial Intelligence Center will have a role to play.

The National Treasury is responsible for setting up the Financial Intelligence Center, a process we believe will take two to three years. When we are done, the center will become an independent state agency. We are presently hiring staff, particularly analysts, profile builders, and information technology specialists. An advisory group of key stakeholders will help us build an information technology (IT) infrastructure. We hope to appoint an IT director soon who will take charge of this process.

The Money Laundering Advisory Council, the other institution created by the February 2002 act, provides the minister with advice on fighting money laundering. The minister has to consult with the council on all issues of legislation and regulation. Therefore, if we want our regulations to be in place before the end of the year, we also have to have the Money Laundering Advisory Council up and running before the end of the year. We are selecting representatives to the council from government departments and supervisory bodies, and devising a process by which institutions regulated under the act may nominate representatives to the council. We are hoping to have the first meeting of the Money Laundering Advisory Council in about six weeks.

The institutions that will be accountable to the Financial Intelligence Center include banks, insurance companies, various financial service providers, casinos, accountants, lawyers, and estate agents. The biggest and most important institutions will be the first to be required to comply with the regulations. Accountable institutions must identify their clients, keep appropriate records, report suspicious transactions, appoint compliance officers, and provide training for all of their staff. On the law enforcement side, we are identifying the systems, structures, and training that our law enforcement agencies will need if they

are to investigate reports from the FIC. All law enforcement authorities require extensive work on IT systems—hardware, software, and staff training—to facilitate information flows and data capture.

Nine supervisory bodies ensure compliance with our legislation. The two key bodies are the South African Reserve Bank and the Financial Services Board. Here again we face the issue of training staff to monitor compliance with the new regulations on money laundering and future regulations dealing with terrorist financing. The supervisory bodies also need to beef up their record keeping systems and databases. The two that I mentioned have extensive infrastructure in place. The others, more dispersed and self-regulating, will need extensive assistance in order for them to take on their new responsibilities.

We are cultivating helpful international linkages. In June 2002 South Africa signed the memorandum of understanding issued by the ESAAMLG and was accepted into the group at its recent meeting in Swaziland. We have stated that we really welcome regional cooperation and regional assistance, and we certainly will play our part.

We hope to become a member of the Financial Action Task Force (FATF), where we are now an observer. Our government has agreed to undergo a mutual evaluation in February and March of next year, which should, we hope, lead quickly to membership. We aim to be receiving information on suspicious transactions by February 2003, which we hope will facilitate our entry into the Egmont group of financial intelligence units.

### *Needs for Technical Assistance*

We do not feel we require assistance in drafting legislation. But we are prepared to share our drafting experience with other countries in the region.

We do require technical assistance in the training of center staff, analysts, and profile builders. We are looking for an IT advisor who can assist us for the next few months, and we are also looking for help with IT specifications and requirements development.

We may or may not need technical assistance in raising awareness of money laundering and terrorist financing issues within accountable

institutions. We would like to know what processes other countries have used successfully. A related point is training for compliance officers and other staff within banks and other accountable institutions.

Training in financial investigation skills would be most welcome for our law enforcement authorities. As many as 250 people will require basic training over the next 18 months. Additional specialized training related to organized crime, narcotics, and other topics will also be required.

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

I would mention two challenges: implementation and information technology.

At the ESAAMLG meeting in Swaziland a few weeks ago, several countries in the region mentioned the difficulty of moving from the phase of drafting legislation to implementing it. Many questions were asked of us about South Africa's experience in this regard, and much discussion, formal and informal, ensued. South Africa has agreed to assist in facilitating a process that would allow countries in the region to focus on implementation—an issue that the World Bank, too, is putting on the table.

In July, South Africa participated in a workshop on IT needs and infrastructure. It seems appropriate that a similar process should occur within the region to enable countries to identify their IT requirements before legislation is drafted. Here, too, we have indicated that we are willing to help facilitate the process. We welcome the Bank's involvement in this issue.

**Murray Michell** was appointed to establish South Africa's Financial Intelligence Center in late 2001. Previously he worked for four years as special advisor to the minister of finance. During this time he was responsible for aspects of the restructuring process that resulted in the creation of the National Treasury. He was also responsible for planning the implementation of key pieces of legislation, among them the Public Finance Management Act and the Preferential Procurement Policy Act. He coordinated the Treasury's approach to the development finance institutions.

*Mr. Michell was employed at the University of the Western Cape for many years. He has also worked as a trade unionist. He holds an MSc degree in development studies from the University of London.*

- **Musa Fakudze**, Principal Secretary, Ministry of Finance, Swaziland, and colleagues from the Central Bank, Ministry of Finance, Attorney General's office, and Money Laundering Secretariat of Swaziland

*Response to AML/CFT and Institutional Arrangements to Combat Money Laundering and Terrorist Financing*

It is our pleasure to present Swaziland's position regarding the fight against money laundering and the financing of terrorists. Because our government is greatly concerned about money laundering and terrorism financing, and about their destructive consequences, we have joined the international campaign to combat them. Money laundering is an activity that probably will never be totally eradicated, but it can be isolated by successful prosecution and punishment of offenders.

We would like first to commend the World Bank and the IMF for organizing this dialogue. The painful events of September 11, 2001, occurred miles away from Swaziland, but their effect was felt across the oceans. A year after September 11, the battle against money laundering and terrorism financing has just begun.

The fight against money laundering and terrorism financing requires a multifaceted, comprehensive approach. In recognition of this fact, the government of Swaziland over the past year promulgated three parallel pieces of legislation that target money laundering and related offenses. We will provide some details of these acts and of the challenges facing our country. Then we will explain the objectives of the legislation we have adopted.

Four years ago, governments from eastern and southern Africa met in Arusha, Tanzania, to discuss the problem of money laundering. At that meeting, ESAAMLG was born. Its council of ministers has met only twice, the first time in Namibia, and the second here in the Kingdom of Swaziland last August.

ESAAMLG has three key objectives. The first is to adopt and implement the 40 + 8 recommendations of the FATF. Our government therefore is building the infrastructure needed to implement those recommendations. The second objective is to apply anti-money laundering measures to all serious crimes, and to implement other measures contained

in the multilateral agreement relating to profits from all forms of serious crimes.

The Swaziland government has established a national task force on money laundering in response to ESAAMLG's requirements. That task force is drawn from law enforcement agencies, the central bank, the judiciary, and financial institutions.

The Central Bank of Swaziland, by statute a supervisor of all financial institutions in the land, was assigned lead responsibility under last year's Money Laundering Prevention Act. The bank has issued anti-money laundering guidelines to be used in the prevention, detection, and reporting of suspicious transactions. Emphasis is put on the concept of knowing your customer and on good record keeping.

Serious challenges lie ahead. Our greatest challenge is to match the technological innovation applied by criminals and terrorists. Our ability to detect crime, especially white collar crime, must be bolstered through technical assistance from international institutions and from countries that have succeeded in creating institutional arrangements to combat money laundering.

In addition to establishing an anti-money laundering supervisory authority (the central bank), the Money Laundering Prevention Act of 2001 provides for the forfeiture and freezing of assets resulting from money laundering, and for the extradition of persons involved in money laundering. The legislation also mentions terrorism as a predicate offense. A related piece of legislation, the Criminal Matters Mutual Assistance Act, provides a mechanism for international assistance in criminal matters to designated countries. It creates a framework within which we may share information as well as request and offer assistance in identifying suspects, examining witnesses, and tracing, seizing, and confiscating proceeds.

The First Offenses Confiscation of Proceeds Act provides for the confiscation of the proceeds of first offenses. Among the first offenses that it mentions are illicit dealing in arms and ammunition; offenses relating to the possession, conveyance, or supply of dangerous or poisonous drugs; and illicit dealing in or possession of precious metals or stones. All of these factors are used in money laundering, and also to a certain extent in terrorism.

Together, the three pieces of legislation Swaziland has adopted should, if we are able to put them into good practice, provide a good framework for combating money laundering and terrorism.

**Musa Fakudze** is principal secretary of the Ministry of Finance in Swaziland.

- **Humphrey P.B. Moshi**, Associate Research Professor, Economic Research Bureau, University of Dar es Salaam, Tanzania

### *Response to AML/CFT*

A legal framework has been evolving in Tanzania in response to money laundering and terrorist financing. The following acts are already in place: the Extradition Act of 1976, the Mutual Assistance in Criminal Matters Act of 1999, the Economic and Organized Crime Control Act of 1984, the Proceeds of Crime Act of 1991, and the Drug and Prevention of Illicit Traffic in Drugs Act of 1995. Also worthy of mention is the Money Laundering Control circular issued by the central bank in 2000.

However, these bits and pieces of legislation do not provide a comprehensive and enabling legal framework for fighting money laundering. They are inadequate in that they do not conform to the government's model law for the prohibition of money laundering.

The government of Tanzania has formulated a national anticorruption action plan, implementation of which has been hindered by lack of funds. I would like to call on the World Bank and the IMF to come to the rescue of these action plans, and at the same time to complement the political will of the Tanzanian government.

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

A national, multidisciplinary anti-money laundering committee has been established as a way of implementing the program of ESAAMLG, to which Tanzania is a signatory. Tanzania took the lead in establishing that group, even volunteering to host the secretariat. I think the government of Tanzania should be commended for that. Other means of addressing cross-border crime are provided by the regional agree-

ments, including Southern African Development Community (SADC) and the East African Community.

Tanzania's anti-money laundering infrastructure is far from coherent or complete. In the absence of key institutions like financial intelligence units, and faced with poor functioning of other institutions (for lack of adequate resources), anticorruption task forces have found that effective enforcement of laws is difficult.

There are significant gaps between what is in place now and what needs to be in place to provide an effective anti-money laundering system. Further, the level of sensitivity to money laundering issues across the three institutional levels of the Tanzanian financial sector differs significantly. The highest level of sensitivity is in the banking sector, and the lowest in other financial institutions, including real estate.

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

I see three broad challenges, and three specific ones. The first broad challenge is how to create a socioeconomic and political environment that is inhospitable to money laundering and other major financial crimes. The second is how to develop the capacity to address money laundering by strengthening financial and nonfinancial institutions and enforcement capabilities. The third is how Tanzania can participate most effectively in a strong network of regional and international institutional operations.

The specific challenges, in Tanzania as elsewhere, are the cash economy, corruption, and the ever-growing informal sector, which abets money laundering.

### *Needs for Technical Assistance*

An effective anti-money laundering program imposes compliance costs, not only on the financial sector, but also on other stakeholders. In this regard, bilateral and multilateral technical and financial assistance is imperative. The main focus of assistance should be institutional and human capacity building.

Assistance is needed first to bring the anti-money laundering structure to the level of international standards or adequacy. The second need is for resources to ensure that the institutions perform their roles effectively. Additional assistance should aim at raising awareness of the scope and consequences of money laundering.

*Humphrey Moshi is associate research professor at the University of Dar es Salaam. He was recently a visiting AERC/IMF scholar at the International Monetary Fund. From 1996 to 2000 he was economic advisor to the minister of finance.*

*Dr. Moshi is a graduate of the University of Münster and the University of Dar es Salaam where he obtained his doctoral degree and master's in economics and finance and a BA in management and administration. He is an author of several publications.*

- **Edward Katimbo Mugwanya**, Chairman, Anti-Money Laundering Committee, and Executive Director, Bank Supervision Unit, Bank of Uganda

I would like to thank the organizers for inviting us to share in this global dialogue and to introduce some of those participating from Uganda. We have the World Bank officials based in Kampala with us, as well as the chief executive of the Uganda Stock Exchange, the president of the Insurance Institute of Uganda, the secretary of the Institute of Certified Public Accountants, representatives from the capital market authorities, a representative of the Ministry of Internal Affairs, and members of our Anti-Money Laundering Committee, including the Ministry of Finance and representatives of the Bank of Uganda, the central bank, which was mandated to take the lead in developing policy to fight money laundering.

The committee also includes representatives from the customs department, the office of the attorney general, the Uganda police, and the Uganda Bank Association, and the Ministry of Justice. It is a multidisciplinary committee.

### *Response to AML/CFT*

Uganda attaches great importance to the global fight against money laundering and the financing of terrorism. Uganda joined ESAAMLG and signed the memorandum of understanding drawn up by 13 governments of this group in August 1999. Uganda

passed legislation in 2000 to deter and suppress acts of terrorism, and to provide for punishment of persons who plan, instigate, support, finance, or execute acts of terrorism. Although Uganda's criminal code was amended in 1998 to permit the freezing of accounts of accused persons and to prevent accused persons from disposing of their assets, the code does not presently allow seizure of monies intended to finance terrorism.

The National Drug Policy and Authority Statute of 1993 permits investigations into drug and narcotic activities, as well as confiscation of drugs and narcotics, although it falls short of permitting seizure of monies derived from drug and narcotic activities.

An anti-money laundering bill has been drafted and is under discussion. In this regard, we expect to sign an agreement with the Office of Technical Assistance of the U.S. Treasury to help us ensure that the legislation is up to international standards.

The Bank of Uganda has issued anti-money laundering guidelines to institutions that accept deposits. The guidelines require financial institutions to put in place know your customer policies and procedures and to address detection and reporting of suspicious transactions.

The Financial Institutions Bill of 2002, which would amend 1993 legislation, contains a provision that would require all deposit-taking institutions to know their customers and report suspicious transactions. We expect this bill to be passed before the end of 2002.

Examination procedures for financial institutions have also been expanded to include detection of suspicious transactions and know-your-customer principles. But in this respect, training is still required.

Uganda's Anti-Money Laundering Committee is developing a sensitization program on money laundering and its evils. Surveys on money laundering typologies and strategies in Uganda will soon be carried out.

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

Upon enactment of the anti-money laundering law, a financial intelligence authority will be set up to coordinate investigation and prosecu-

tion of money launderers. Once established, it will coordinate the activities of various existing authorities.

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

Several challenges will need to be faced once the law has been enacted.

First, the public does not understand the dangers of money laundering. Sensitization of professional advisors, insurers, lawyers, and accountants is in its infancy. It is hard to tell how long it will take to sensitize these other professionals and enlist them in the fight against money laundering.

Second, there is no universal national citizen identification system in Uganda, so the know-your-customer concept is difficult to implement. We do not have unique street addresses, either, so financial institutions cannot reliably identify citizens by addresses.

Third, we have budget constraints in the fiscal sector, so it will be difficult to adequately finance the implementation of anti-money laundering measures.

Fourth, there is insufficient transparency in corporate reporting, especially in small and medium enterprises. Uganda is a cash economy, which makes it difficult to trace the flow of funds.

### *Needs for Technical Assistance*

The technical assistance we will receive from the U.S. Treasury Department will not be enough to do all we have to do. We need more financing, more training programs, more publicity campaigns, more institutional capacity building, and more individual capacity building - all of which costs money.

*Edward Katimbo Mugwanya is the executive director of the Bank Supervision Unit of the Bank of Uganda and the chairman of the Uganda Anti-Money Laundering Committee. An accountant chartered to practice in England and Wales, he received his bachelor's degree in business at the University of Nairobi.*

*Before joining the Bank of Uganda in 1990 as deputy chief accountant, Mr. Katimbo Mugwanya worked for the National Audit Office of the United Kingdom (1985–89) and for Deloitte Haskins & Sells (1979–84).*

## The Urgency of Regional Collaboration

- **Herman Kessy**, Interim Executive Secretary, Eastern and Southern Africa Anti–Money Laundering Group

Mr. Chairman, may I record the appreciation of the secretariat for convening this forum, which I find very useful as I listen to members from countries represented in the secretariat. When I was going through the list of participants I realized that we have at least 100 people following this dialogue simultaneously. I am very pleased to have everybody on board, because we cannot be successful if we do not reach the subregions.

The Eastern and Southern Africa Anti–Money Laundering Group (ESAAMLG) comprises 14 member countries from Eastern and Southern Africa, which includes Botswana, Kenya, Lesotho, Malawi, Mauritius, Namibia, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe on the mainland, and Mauritius and Seychelles on the Indian Ocean. The mainland countries are contiguous and can be reached by land, air, and water, except for Botswana, Swaziland, Uganda, Zambia, and Zimbabwe, which are landlocked. The island countries are not far from the mainland and are easily reached by air and water.

The populations share many tribal and linguistic connections. Their economies are all weak, except for South Africa's, and all depend on agriculture and minerals as a source of income for food, imports, and exports. The economies are almost entirely cash based, except for those of South Africa and Mauritius, where banking is relatively more developed. Their legal systems are weak, with very few judges well versed in international law and criminology. This is understandable, because their educational systems are not advanced. Law enforcement systems are equally weak in skills and equipment. Banking regulation is generally weak, and trained supervisors are not many. Financial accounting and legal staff are relatively few, and their services are likely to be expensive.

Nevertheless, the countries of ESAAMLG have a variety of resources, including climatic conditions, that make the region a significant market unto itself. It takes a little bit of thinking and management to spur development in the member countries, but it can be done. The establishment of the Southern Africa Development Community (SADC), is a case in point. In the same spirit, we have seen merit in approaching big issues such as money laundering and terrorism as a bloc so as to benefit from economies of scale in international cooperation, knowledge, technology, finance, and human resources.

Our organization is led by a ministerial council and a task force of senior officials with expertise in law, finance, and law enforcement. The task force is required to meet twice a year, and the council meets at least once a year. The secretariat, based in Tanzania, implements the work program approved by the council of ministers, as interpreted by the task force.

The secretariat's budget is funded by contributions from member countries, cooperating and supporting nations, and observers. Subgroups have been established to move the work program forward and to facilitate research in specific areas of interest to the group, as approved by the council.

The first task of the group was to set up a register of national contact people responsible for coordinating efforts to fight money laundering and the financing of terrorism with domestic stakeholders in the legal, financial, and law enforcement agencies. The second task was to obtain information on member countries' anti-money laundering systems and controls. Third, we had to complete self-assessment ques-

tionnaires covering the Financial Action Task Force's (FATF) 40 recommendations on anti-money laundering and its additional 8 recommendations on combating the financing of terrorism.

We collected the national laws of member countries relevant to money laundering and must now establish standards on legal, law enforcement, and financial issues. We are working on an intranet to share information internally (within ESAAMLG). We have developed links with local universities and research institutions in the region. We also set national targets on AML/CFT activities, with time frames. We coordinate technical assistance for the group. Last, but not least, we will be carrying out mutual evaluations of the member countries of our group.

The issues in the program all have been implemented with reasonable success. Some are continuous, but those that were finite have been accomplished as such. The secretariat is now on the Internet, and some of this dialogue information has been shared through our Web site. The most interesting development in our view has been our interaction with the Institute of Security Studies of South Africa, which is doing research on money laundering for the SADC countries. We agreed to include the members of ESAAMLG in their research. Some interim reports were presented to the council of ministers in August, and the results were very interesting. The research showed that money laundering was indeed taking place in the region, and some figures were provided.

The secretariat has had very good cooperation with supporting and cooperating nations, as well as other donors, and we have participated in various international and regional activities.

The challenges for the group are many. I will mention only a few. Most of the member countries have raised the issue of awareness, and I would reiterate that we need to raise awareness beyond the technocrats, to reach politicians, legislators, and the general public. We need to have more comprehensive laws on money laundering and terrorism financing, and it would be ideal if the law could fit in one book, so to speak, so that we would not have too much cross-referencing, which compromises quality.

We also need uniform AML/CFT regulations for the region, and those regulations must extend beyond banks. Daniel Kaufmann made it very clear that the nonbank financial sector is now running neck-and-

neck with banks, so it requires our careful attention. We know that in this region money is very often laundered in the form of assets other than cash.

Primary systems in the region must be modernized to reduce the share of cash introductions. With an enabling legal environment, we need to establish financial intelligence units as instruments to collect information, analyze that information, and pass it on to law enforcement for execution. Another challenge is to develop a mechanism for monitoring and reporting suspicious transactions. Training and capacity building in the areas of law enforcement, finance, and justice have been mentioned by almost every speaker from member countries.

We also feel that international cooperation must be enhanced, because as everyone has said, money laundering and terrorist financing are often transnational crimes that cannot be handled in one country.

***Herman Kessy** is interim executive secretary of the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG). Previously he served at the Bank of Tanzania as deputy director for supervision of banks and nonbank financial institutions, senior economist and principal economist for international operations, senior economist for exchange control, and research economist.*

*Mr. Kessy is a graduate of the Institute of Social Studies in The Hague, The Netherlands, and of the Institute for Economic Development and Planning in Dakar, Senegal. He holds a doctorate and a master's degree in economics.*

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

The African Development Bank's (AfDB) involvement in fighting money laundering and terrorism is centered on our recognition that such activities are counterproductive to development. However, we are also conscious of the fact that our interventions in this arena have to be consistent with our mandate and within our capacity.

I will describe our organizational structure so that participants will know whom to contact to discuss possible technical assistance. Within the AfDB we have a task force co chaired by the general counsel of the AfDB group and the director of the Operations Policy and Review department. Also involved in efforts to assist our regional member countries in their fight against money laundering and terrorist activities are the general counsel and the Legal Department, as well as

the Private Sector Department and our Governance Division, which is part of Operations Policy and Review.

AfDB has taken several steps to become better informed about money laundering and to provide assistance to our regional member countries.

- Since February of this year we have acquired observer status in FATF. We are working with regional member countries to adopt and implement FATF's 40 + 8 recommendations.
- We have incorporated into our financing documentation representations concerning money laundering and terrorism.
- We are introducing certificates to be issued by our correspondent banks, confirming that they are not knowingly involved in money laundering and do not have dealings with proscribed terrorist organizations.

We view our role in the struggle against money laundering from three perspectives. First, as a regional development bank, we need to ensure that our proceeds are not being used directly or indirectly to support or otherwise further money laundering or terrorist activities.

Second, consistent with our vision of being a knowledge and information center for Africa, we believe we can help our regional member countries sensitize the general populace and create awareness within the institutions that will be responsible for monitoring and detecting money laundering and terrorist financing. We view both issues as part of the global issue of governance and thus will seek to include them in our work to reform legal, judicial, and financial systems.

Third, we also envisage a role with regard to the new partnership for Africa's development. African heads of state have given AfDB the lead role in developing standards for infrastructure, banking, and finance. In May of this year, we held a meeting in Addis Ababa with representatives of African central banks and financial institutions to discuss the standards. Measures to combat money laundering and terrorist financing were prominent on the agenda. We announced at the meeting that we were ready to work with the regional member countries on adoption and implementation of the FATF 40 + 8 recommendations.

In our dealings with our regional member countries we have observed an interest in adopting legislation or entering into bilateral treaties that would better cover the confiscation of the proceeds of money laundering and the repatriation of such proceeds.

***Cecilia Akintomide** serves in the African Development Bank as the principal counsel for finance and administrative matters and principal counsel for operations, providing legal services for the bank's public and private sector operations. She previously was an associate in the Business Reorganization Department of Weil, Gotshal & Manges in New York. She worked on Chapter 11 reorganizations and out-of-court restructuring of large U.S. corporations and multinationals.*

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

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

I would like first to thank the World Bank for giving us this opportunity to take stock of what has been done so far by the countries of the region. I hope that this experience will be extended to North Africa, because the African Development Bank (AfDB) is interested in the whole continent, and it is important to ensure that information will be shared with all of the countries of the continent.

On the operational side of the AfDB, we are working with the FATF and its member countries to establish a network for extensive information and due diligence. We are also designing training programs for our staff, because we need to sensitize professionals in the bank, and also for officials and others working in the financial systems of our regional member countries. Finally, we are looking for ways to help our regional member countries exchange experiences and complement each other's efforts. This exercise must not be viewed as a one-way street but rather as an exchange of information and experience—a mutual learning experience.

Given the importance of the informal sector and the importance of cash in the economy, it is vital that our awareness-raising efforts reach beyond specialists to sensitize the public at large.

If we compare the experience of ESAAMLG with what is happening in West Africa, we see that there are lessons to be learned beyond the

subregion. With the World Bank and the IMF, AfDB can play a catalytic role in enabling all regional member countries to work together. At some stage, they will tell us goodbye, we don't need you anymore. We should work to hasten that day.

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

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

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

- **Marie-Christine Dupuis**, Advisor, United Nations Global Programme against Money Laundering

Let me first briefly but warmly thank the organizers for having invited the United Nations Global Programme against Money Laundering (GPML) to take part in this dialogue. It is, indeed, a very good example of cooperation to fight the evils of money laundering and terrorism financing.

GPML is the focal point in the United Nations system for money laundering and proceeds of crime issues and for the provision of related technical assistance. The core of our mandate is to help the member states of the United Nations create anti-money laundering regimes that meet UN Conventions and accepted AML international standards.

In 1998 the UN General Assembly Special Session adopted a Political Declaration and an Action Plan against Money Laundering; which set up the objective to have legislation on money laundering in place by 2003. Our program offers technical assistance at various levels to help in the achievement of this objective. It promotes sensitizing activities. It gives direct aid in writing and analyzing legislation (using model laws as points of reference). It supports countries as they implement laws—through training programs targeting legal authorities, financial authori-

ties, and the financial sector. We have concentrated an important part of this assistance over the last few years on supporting the development of Financial Intelligence Units.

Our objective for the Eastern and Southern Africa region has been, first, to support the development of legislative and regulatory frameworks and, second, to encourage focused regional cooperation. We have supported ESAAMLG since its inception. It has been gratifying to hear the very strong commitment of the countries of the region to ESAAMLG's work.

We have worked very closely with the ESAAMLG Secretariat to identify the best way to support their activities. We have agreed that a Mentor should be placed in the Secretariat for one year, beginning in October, to help the Secretariat carry out its duties. He will assist the Secretariat in the collection and analysis of national self-assessments, and in the development of the process of mutual evaluation. He will also provide assistance in securing the passage of anti-money laundering legislation, including provisions related to the financing of terrorism.

***Marie-Christine Dupuis** graduated from the Ecole des Hautes Etudes Commerciales in France and served as head of government advisory services in an investment bank before joining the UN Global Programme against Money Laundering in 2000. She assists in policy development to promote the formulation and implementation of anti-money laundering legislation among member states of the United Nations, as well as in the planning, design, and implementation of regional and national assistance programs.*

*Ms. Dupuis is also a consultant to the research center on contemporary criminal threats at the University of Paris II. She is the author of two books on money laundering: **Criminal Finances: How Criminal Groups Launder Dirty Money (1998)** and **Narcotics, Price and Profits: The Political Economy of the Industrial Narcotics Market (1996)**, both published by Presses Universitaires de France.*

## Wrap-up

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

Many of the participating countries are in the formative stages of developing an AML/CFT regime. To move forward, they will need a significant amount of technical assistance and training.

Regional cooperation can directly affect the growth and performance of AML/CFT regimes. That statement was made by the representatives of the African Development Bank and others. To expand opportunities for cooperation, I would encourage everyone to support and join their respective regional FATF body. Those bodies are a crucial avenue for developing anti-money laundering regimes.

A common thread noted during the discussions was the lack of AML/CFT awareness—an issue that appears to be extremely important for the countries of the region. The first step in developing an AML/CFT regime is to implement a vigorous awareness campaign that includes the public as well as key legislators, political figures, and government officials. Following such an initiative, a legislative framework must be developed. Assistance in this area is critical.

Other areas of importance in the region are training judges and prosecutors, capacity building for financial supervisors, developing information technology resources, monitoring cross-border transactions, and understanding the role of nonbank financial institutions and alternative remittance systems.

Although initial progress has been made by some countries in the region, much more work and assistance will be required to develop effective AML/CFT regimes in the region.



*Before joining the World Bank as a consultant at the beginning of 2002, **John McDowell** served as senior policy advisor for the U.S. Department of the State, where he was responsible for developing policy on global financial crime related to money laundering, terrorist financing, and bank regulation. His responsibilities also included the global technical assistance program for financial crime.*

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

*Mr. McDowell holds an MPA in business and government from Harvard University and a bachelor's in business administration from the University of Florida.*

## **Annex A: Money Laundering and its Broader Context**

### **Money Laundering and its Broader Context:**

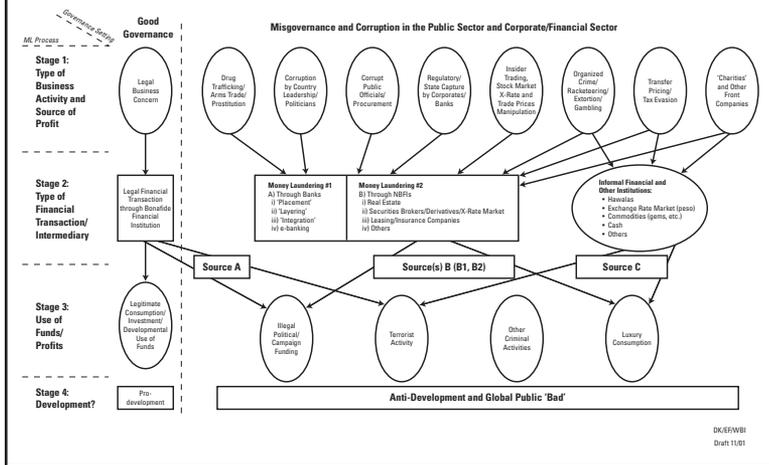
Public, Private, and Financial Sector Governance  
Matters Enormously to a Diagnosis and Understanding  
of the Causes and Consequences of Money Laundering

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

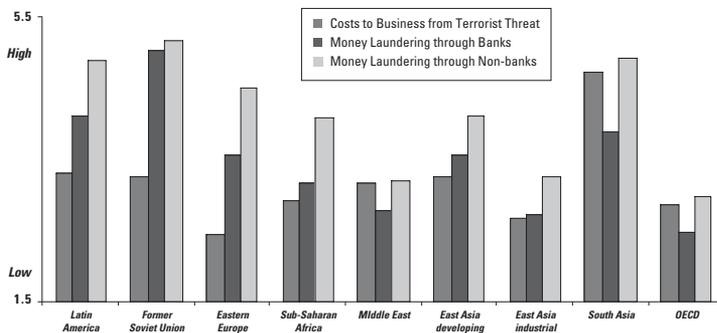
Background Empirical Materials for Discussion

*Note: All data contained here is preliminary and for discussion only, reflecting research-in-progress.*

## 'Far from a Simple Laundromat': AML within a Broader Perspective—A Schematic Chart Misgovernance, Money Laundering, and Terrorism



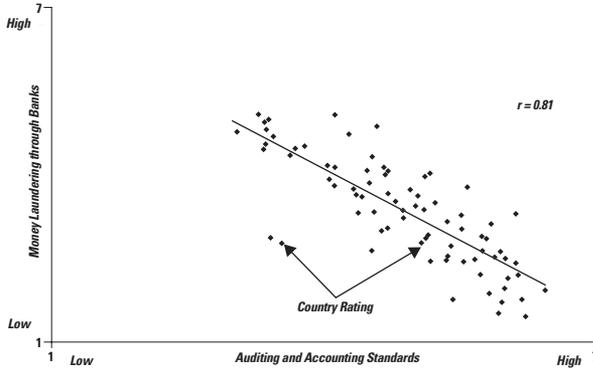
## Money Laundering and Terrorism — 2002 Preliminary Regional Averages Based on Reports from Firms in 80 Countries



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

Source: Global Competitiveness Survey 2000.

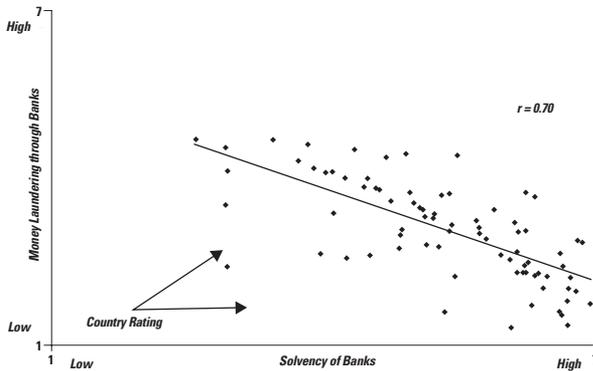
### Money Laundering (through Banks) and Auditing and Accounting Standards



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

Source: Global Competitiveness Survey 2000.

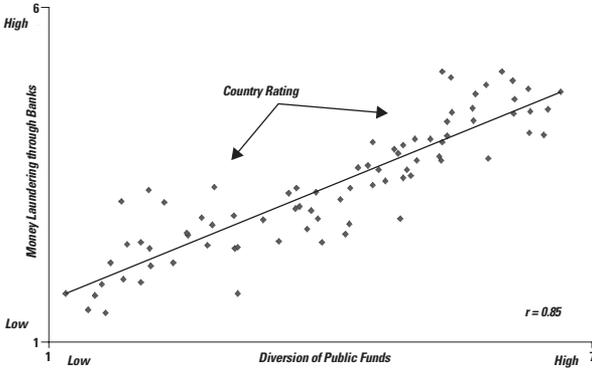
### Money Laundering (through Banks) and Solvency of Banks



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

Source: Global Competitiveness Survey 2000.

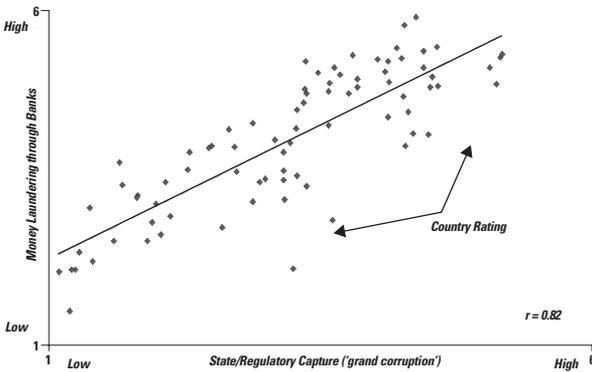
### Money Laundering (through Banks) and Diversion of Public Funds



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.

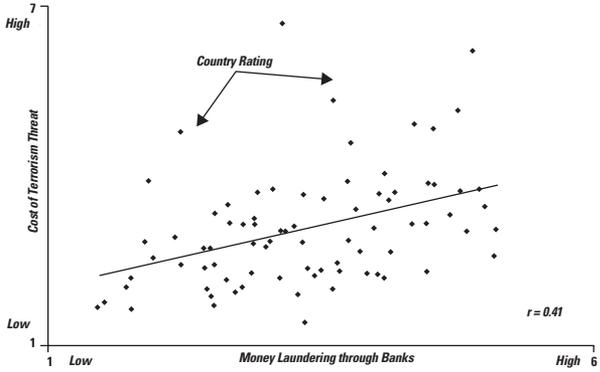
### Non-Bank Money Laundering and Capture of the State



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.

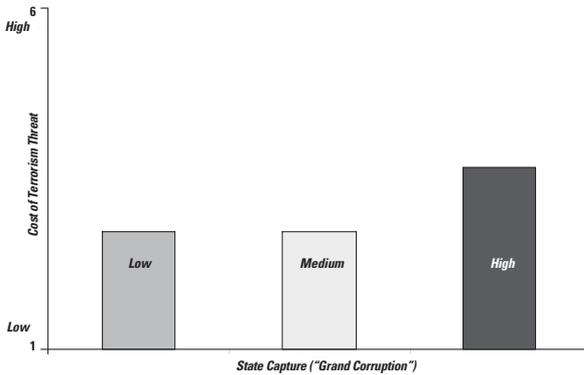
### Cost of Terrorism Threat and Money Laundering (through Banks)



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.

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



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.

### **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