

Anti-Money Laundering and Combating the Financing of Terrorism

Regional Videoconference:

Central and West Africa Region—

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



World Bank and IMF Global Dialogue Series

Anti-Money Laundering and Combating the Financing of Terrorism

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BCEAO (Banque Centrale des Etats de l’Afrique
de l’Ouest), BEAC (Banque des Etats de
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A Worldwide Challenge...

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

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

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

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

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

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

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

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

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

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



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

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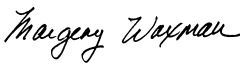
Assistant Director, Special Financial Supervisory Issues Division, International Monetary Fund

“Anti-Money Laundering and Combating the Financing of Terrorism,” a Global Dialogue Series, was inaugurated by the World Bank and IMF in January 2002. The first dialogue in the series covered several countries from the World Bank’s Europe and Central Asia (ECA) region and the second covered the Bank’s Latin America and the Caribbean (LCR) region. The third, fourth, and fifth dialogues dealt with Africa. The third dialogue, held on September 10, featured experts from The Gambia, Ghana, Nigeria, and Sierra Leone; the fourth, held on September 11, featured experts from Kenya, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Tanzania, and Uganda; and the fifth, held on September 12, included experts from BCEAO (Banque Centrale des Etats de l’Afrique de l’Ouest), BEAC (Banque des Etats de l’Afrique Centrale), Angola, Cape Verde, Democratic Republic of Congo, and Rwanda. This booklet summarizes the fifth 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 55 participants from client countries who represented central banks, ministries of finance, ministries of justice, attorney general chambers, secretariat of state for security, national directorate of supervision of economic activities, and other institutions.

The event provided a unique opportunity for African countries, the World Bank, the International Monetary Fund, the African Development Bank (AfDB), the Financial Action Task Force (FATF), the Group for Inter-Governmental Action against Money Laundering (GIABA, the FATF-style body for ECOWAS), the United Nations Global Programme against Money Laundering, and the Bank of France to discuss the challenges they face in combating money laundering and the financing of terrorism. The participants learned about the progress of each country and identified the type of assistance they need to make further progress. Moreover, they recognized the paramount importance of framing and addressing the challenge of money laundering within the broader context of improving governance and combating corruption and fraud in the private financial and public sectors. Efforts to fight money laundering and combat the financing of terrorism cannot be effective in isolation from national and transnational governance, or by merely adopting conventions and declarations.

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.



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Videoconference Agenda—September 12, 2002

Gerard Byam, Moderator

Sector Manager, Financial Sector, Africa Region, World Bank

Welcome and Introduction

- Gerard Byam

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

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

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

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

Country Presentations—How Have Governments Responded?

- Bolo Sanou, Assistant Director for International Relations, BCEAO (Banque Centrale des Etats de l’Afrique de l’Ouest)
- Clément Mouamba, Special Advisor to the Governor, BEAC (Banque des Etats de l’Afrique Centrale)
- António Adriano Rafael Pascoal, Deputy Governor, Bank of Angola, Angola

- Albertina Rocha Costa, Legal Counsel, Ministry of Finance and Planning, Cape Verde
- Laurent Tshimanga Mukeba, Attorney General, Justice Department, Democratic Republic of Congo
- François Kanimba, Governor, Central Bank of Rwanda, Rwanda

The representatives from BCEAO, BEAC, Angola, Cape Verde, Democratic Republic of Congo, and Rwanda were asked to address the following issues:

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

The Urgency of Regional Collaboration

- Mamadou Lamine Fofana, Coordinator, Group for Inter-Governmental Action against Money Laundering in Africa (GIABA)
- Cecelia Akintomide, Principal Legal Counsel, Legal Department, African Development Bank (AfDB)
- Mohamed Bourenane, Principal Investment Economist, African Development Bank (AfDB)
- Emmanuel Carrère, Secretary, Anti-Money Laundering Committee for the Franc Zone, Banque de France
- Patrick Moulette, Executive Secretary, Financial Action Task Force on Anti-Money Laundering (FATF)
- 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 efforts and regimes and efforts to combat the financing of terrorism. Participants raised the following issues, needs, and possibilities:

Technical Assistance Issues Raised by Participants

- Assistance/seminars are needed to develop legislative frameworks for anti-money laundering and combating the financing of terrorism (AML/CFT).
- There is a strong need to raise awareness in all sectors, particularly among political officials, legislators, and the public.
- Cross-border assistance and training of customs officials is required.
- AML/CFT training is needed for judges and central bank officials.
- Law enforcement officials need training in financial investigative techniques.

- Typologies and seminars are needed to determine money laundering and terrorist financing trends in the region.
- Modern equipment is needed to identify money laundering and terrorist financing transactions.
- Financial assistance is needed to develop AML/CFT regimes.
- Officials need training on the use of high-value property (gems) to launder illicit proceeds.
- Officials need to learn more about the informal banking sector (underground banking).
- Training in electronic financial transaction methods is needed.
- AML/CFT needs assessments should be carried out.
- Bank regulators and bankers need training in financial sector issues surrounding money laundering and terrorist financing.
- Bank supervision authorities need capacity building assistance.

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

- Lack of regional cooperation on AML/CFT issues
- Corruption in the region
- Weak or ineffective capital controls and cross border transactions
- Counterfeiting of currencies
- Lack of awareness of the dangers of money laundering and terrorist financing.

Speaker Presentations

Welcome and Introduction

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

I would like to welcome all participants including staff of the World Bank and IMF to the global dialogue on combating money laundering and terrorist financing activities. I am especially grateful for the substantial representation from the participating countries—Angola, Cape Verde, the Democratic Republic of the Congo, and Rwanda—and the several institutions that are here today. We are also very honored here 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 Financial Action Task Force (FATF), the African Development Bank, the United Nations Global Programme against Money Laundering, and the Bank of France.

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

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



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

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

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

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

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

In April 2001, the World Bank's board agreed to step up its anti-money laundering efforts, working in close cooperation with the International

Monetary Fund. Specifically, the board decided that more attention should be placed on anti-money laundering issues in the Bank's diagnostic work, and that the Bank should be prepared to provide more technical assistance to build capacity in client countries. At the same time, the board made clear that the Bank's role should be consistent with its development mandate and that it should not become involved in law enforcement activities.

Based on this guidance, the Bank, working together with the IMF, developed a methodology to assess a country's anti-money laundering 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, the United Nations Global Programme against Money Laundering, the United Nations Committee on the Financing of Terrorism, regional development banks including the African Development Bank, and key bilateral technical assistance providers.

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



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

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

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

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

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

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

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

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

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

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



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

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

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

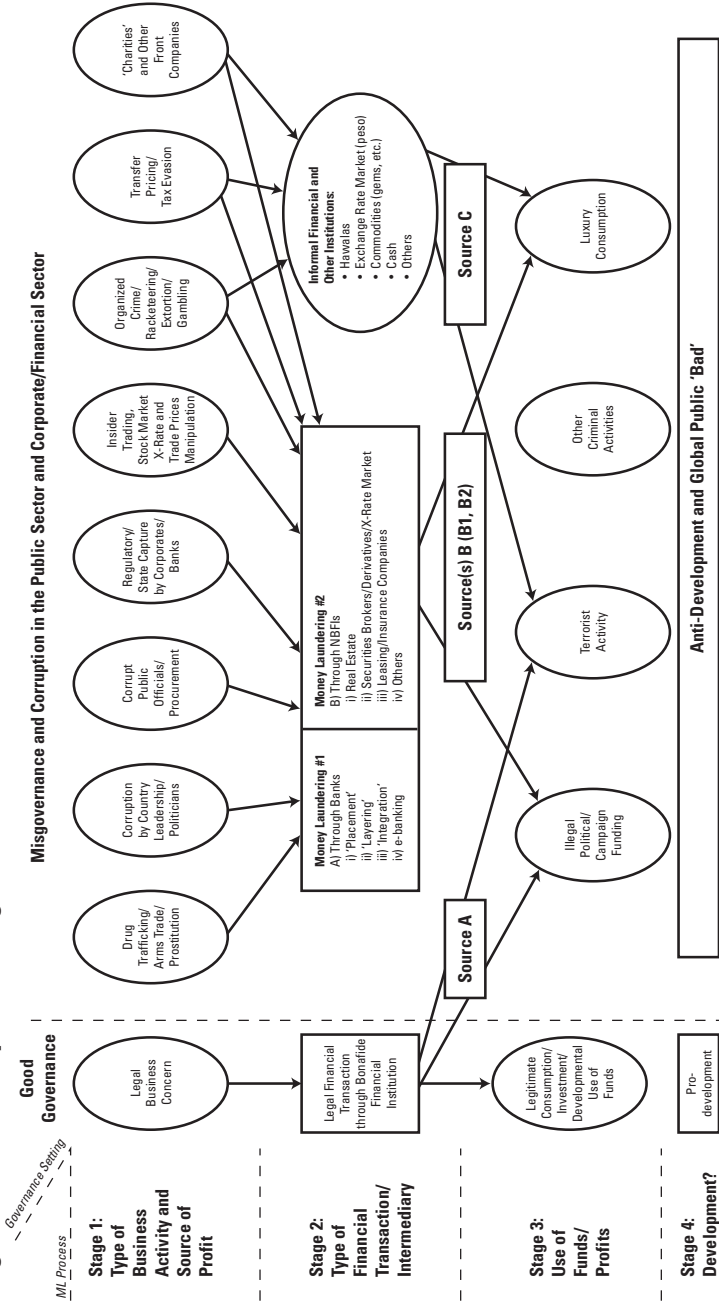
- **Daniel Kaufmann**, Director, Global Governance and Latin America Capacity Building, World Bank Institute

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

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

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

Misgovernance, Money Laundering, and Terrorism



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

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

A deeper understanding of the not-so-simple relationships between money laundering and terrorism financing is needed. It is very important in some countries; not as important in others. There are other crucial complexities. Terrorist activities can be financed by profits from

so-called legal activities, and not just from illegal and laundered funds. To stop terrorism funding one has to go beyond merely looking at money laundering.

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

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



*In addition to his role as director for Global Governance, **Daniel Kaufmann** also directs the World Bank Institute's (WBI) capacity building efforts in Latin America. A recognized leading expert in the field of governance, he has pioneered new empirical and survey methodologies, and with his team he supports countries that request good governance and anticorruption assistance through a rigorous empirical, systemic, and strategy-driven approach. He frequently advises state leaders, governments and civil society. Before joining WBI in 1998 as manager, Dr. Kaufmann was lead economist in the*

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

Country Presentations— How Have Governments Responded?

- ***Bolo Sanou***, Assistant Director for International Relations, BCEAO (Banque Centrale des Etats de l’Afrique de l’Ouest)

Response to AML/CFT

The authorities of the West African Monetary Union have understood the importance of combating money laundering and the financing of terrorism. Our eight-country mission aims to preserve the integrity and the solidity of the financial system in our union.

Thanks to our West African Central Bank, we organized a July 2000 workshop to sensitize people about AML operations. There were representatives of eight member states, the Bank of France, the partners in the franc zone, and other countries. This gathering enabled us to discuss the problems posed by money laundering.

A ministerial meeting of the West African Union validated the workshop conclusions. The ministers asked the representatives of the workshop to prepare a community text for the economic and monetary union of West Africa. Today that document is in its final stage—we expect it to be adopted by the ministerial council of our economic union on September 19. There are two texts—a community directive

that aims for AML operations in the West African Union, and a project for community regulations that specifically deals with the financing of terrorism within the union.

This is the architecture that should be adopted by the ministerial council for the union. The text just needs to be adapted to the situation of each country and inserted in their legal systems.

Needs for Technical Assistance

To efficiently combat money laundering and terrorism financing, the member states of the West African Union will need support from international institutions on the following key areas:

- Training of people called for monitoring the National Structures for Financial Information Treatment (CENTIF);
- Seminars/workshops to improve the skills of civil servants and financial institutions' staff in charge of conducting AML/CFT activities' programs; and
- Adequate equipment for the CENTIF to properly undertake their duty.

*As assistant director for international relations at BCEAO, **Bolo Sanou** is responsible for coordinating relations among the member states of the Economic and Monetary Union of West Africa (UEMOA). He also supports the UEMOA regional integration process. He is responsible for balance-of-payments issues and for tracking the implementation of rules and regulations governing the member states of the Union.*

In his career at the BCEAO, he has served in the Accounts Directorate, the Financial Operations Directorate, the Research Directorate, and the Directorate of International Studies.

Mr. Sanou holds a higher diploma in banking and finance from the West African Center for Training and Bank Studies in Dakar, Senegal.

- **Clément Mouamba**, Special Advisor to the Governor, BEAC (Banque des Etats de l'Afrique Centrale)

I would like to congratulate you on the initiative to organize this dialogue. My role today is to let you know what has been done in our

union of six countries—Cameroon, Central African Republic, the Congo, Gabon, Equatorial Guinea, and Chad.

Response to AML/CFT

Knowing that measures had to be taken, we organized a November 2000 seminar to develop some recommendations for governments, financial sectors, and international partners. We wanted to draw their attention to problems so that they would integrate our perspective into their good governance programs.

In December 2000, the heads of states, meeting in N'Djamena, issued a general policy declaration creating an organization to fight money laundering. In 2001, under the leadership of the central bank, we implemented the charter of the Groupe Anti-Blanchiment d'Afrique Centrale (GABAC) to fight money laundering, to assess the results of efforts in the subregion, and to cooperate with international organizations. So today the GABAC exists on paper. Very soon a staff structure will be implemented. One official and two assistants should be able to start work in 2003.

Beyond that, we have realized that there is a legal void in terms of anti-money laundering legislation. So we are developing a text at the union level to fight money laundering and the financing of terrorism. This text is almost ready. If it is adopted, it will be submitted to the ministerial council, and we hope before December to have an official text regulating the fight against money laundering and terrorism financing.

Our governments are fully aware of the problem and are committed to taking measures against it. As for international cooperation, the central bank and its banking commission participate in a committee in the franc zone on anti-money laundering.

Needs for Technical Assistance

What do we expect from the international community? We need training support. We are convinced that anti-money laundering activities must be developed at the government level, and you could help us to take stock of what already exists.

We have a number of activities—casinos, drug trafficking—that are the cause of these problems, so we have to attack these causes. We need to better understand the problem to be more aware of money laundering in our countries. Banks have to know that the problem exists. So we need to reinforce communication. The GABAC, based in Bangui, will play a key role in this. BEAC has committed XAF150 million to this institution, because we know that it needs the money to start its work. In the future we will need financial aid.

That, in general, is what we have done. The governments are aware of the problem and of the measures that need to be taken.

Clément Mouamba has been an advisor to the governor of the Banque des Etats de l'Afrique Central since 1998. Previously he held the position of director for credit and data processing. From 1992 to 1995 he was Congo's minister of finance and economic planning. Prior to his ministerial duties he was director general of international and commercial banks in Congo.

Mr. Mouamba holds a doctorate in economic science from the University of Paris I.

• **António Adriano Rafael Pascoal**, Deputy Governor, Bank of Angola

I would like to thank the World Bank and the IMF, as well as all the organizations that have contributed to this videoconference on a very important issue.

Response to AML/CFT

In May of 1999 we started the process of liberalizing our financial system, and this process is ongoing. We are dealing with interest rates and exchange rates, and we have gotten rid of a lot of administrative regulations to liberalize our financial system.

In 1999 the government submitted to parliament a new law to fight money laundering by regulating financial institutions more strictly. In response to that legislation, the Bank of Angola, the central bank, which regulates exchange rates in Angola, took a number of measures addressing exports, imports, and documents necessary for bank transfers. To further fight illegal activities, the government is preparing a draft bill on anti-money laundering.

Angola is a country that exports diamonds. Given the sensitivity of this trade, and to avoid all temptation of illegal export by traditional producers, the Bank of Angola promulgated diamond regulations. We have forced banks to make sure that export payments only go through banks, and that banks present a monthly report to the central bank. The Central Bank also published regulations that limit the export of currency. Exports of more than \$5,000 by nonresidents have to be divulged. Banks must report daily to the central bank on what currency exports have taken place. The central bank gives regular reports to commercial banks on individuals sanctioned by the United Nations for participating in terrorist financing.

The Southern African Development Community (SADC), with the help of the World Bank, is working to develop and reinforce the financial systems of the region, and to fight all illegal activities—in particular those that create threats for the major economic partners within and without the region.

Needs for Technical Assistance

Given the scope of these projects, we have asked the IMF to send an expert in banking supervision to build our capacities in that field. We also seek help to prepare regulations for reinforcing the identification of capital transfers and criminal activities.

António Adriano Rafael Pascoal is deputy governor of the Bank of Angola.

- **Albertina Rocha Costa**, Legal Counsel, Ministry of Finance and Planning, Cape Verde

Response to AML/CFT

Cape Verde is an island country that cannot ignore the problem of money laundering and terrorist financing. We have a very fragile financial system, and international investors play important roles in our economy.

Cape Verde has always included in its legal and national framework all the United Nations conventions on anti-money laundering and antiterrorist financing. We have laws that are very old and not always adapted to the present situation. We are trying to develop a new penal code

that will deal with problems related to money laundering and other crimes. The parliament will be discussing it soon.

The objective of these laws will be to define money laundering—whether it comes from terrorism, drug trafficking, kidnapping, money diversion, or contracts. We will take into account financial institutions and the informal financial sector. We will address casinos, real estate companies, and companies that deal in precious stones.

Institutional Arrangements to Combat Money Laundering and Terrorist Financing

In our constitutional framework, we have control of institutions. There is a general inspection of finances, but controls are a posteriori and very often lack follow-up. On the economic level, within the ministry of commerce and industry, there is a section that deals with economic problems, but it acts as a control institution only in terms of competition and product quality. It does not supervise. We have an autonomous fiscal court, but its status is not well defined, and it does not do the work that fiscal courts do in other countries.

With regard to law enforcement, we have a ministry that deals with suspicious transactions in collaboration with the criminal and judicial police, the coast guard, and customs.

Key Challenges in Combating Money Laundering and Terrorist Financing

Our problem right now is that, given our geographic position, we have seen that we are becoming a central point in drug trafficking. Money laundering is linked to drug trafficking. Cape Verde cannot ignore this situation, and we have tried to reinforce fiscal measures and control of the seas.

Needs for Technical Assistance

On the legislative level we have a team for fighting money laundering, but we need more human resources. Most Cape Verdeans are not trained. We need material and financial aid, and we also need international aid—regional or international—to better meet these needs.

I have not spoken about combating terrorist financing because we have not yet had to deal with this problem. Cape Verde has ratified all conventions on anti-terrorism financing.

Albertina Rocha Costa is a legal expert in the Cape Verde Ministry of Finance. She has a special interest in subjects related to international investments and corruption problems. She is a graduate of the University of Paris I, where she obtained a graduate diploma in international economics law, as well as a degree in foreign language.

- **Laurent Tshimanga Mukeba**, Attorney General, Justice Department, Democratic Republic of Congo

The Democratic Republic of Congo thanks you for enabling us to take part in this exchange.

Response to AML/CFT

Through regulations on the prevention of money laundering promulgated in November 1998, the Central Bank of Congo addresses operations that transform illicit money into money that can be reused legally. Congolese laws do not define money laundering, but they do define criminal activities such as drug trafficking, trafficking of weapons, false documentation, illegal exchange activities, corruption, diversion of public funds, fraud, and so on, all of which are punished by the Congolese penal code.

Congolese banks need to make sure of the identity of their clients when they open bank accounts. Banks need to communicate with the central bank when they suspect a client of illicit operations, and every month they need to transmit to the central bank information on any operation involving more than the equivalent of US\$10,000. They must communicate to the central bank the origin of the funds for any transfer of an amount greater than US\$50,000.

Institutional Arrangements to Combat Money Laundering and Terrorist Financing

There are no institutional arrangements for fighting money laundering, but a 1998 ordinance states that the officials of the Central Bank of Congo have the power of the judicial police, and they have jurisdiction

over the whole country. They can investigate any suspicious transaction. Public ministries may also pursue these matters, but such cases are very rare.

United Nations Resolution 1373 concerns the implementation, in all countries, of international instruments for combating the financing of terrorism. Through presidential edict, we have implemented a national committee to fight terrorist finance. The committee has full responsibility to coordinate and implement all necessary activities. It can conduct an investigation into suspicious financial transactions that may be linked to terrorism, and can cooperate with foreign powers and international organizations to prevent and suppress terrorist activities. It is also empowered to take measures to prevent the diversion of credit and other systems of transmitting funds.

Key Challenges in Combating Money Laundering and Terrorist Financing

It is very hard for us to apply our 1998 regulations on money laundering. We have problems with financial institutions in the Congo. We need to control the movement of capital, but at the national and international level it is very hard for us to track these movements. The police on the borders, and those responsible for law enforcement, do not have the means to measure the product of illicit activities.

Our country is large—over 2 million square kilometers—and control of our long borders surpasses our financial capabilities. We have problems when it comes to customs control, police control, and legal control. It is just very hard for us to prevent criminal activities. Illegal enterprises maintain storefronts and operate with impunity in our country.

We have two major challenges—corruption and the lack of regional cooperation. The president has implemented a commission to fight corruption and fraud and to assess the effects of these criminal activities on our country.

Needs for Technical Assistance

The electronic transfer of capital through the financial system seems to be one of the major sources of money laundering. The Democratic Republic of Congo asks other countries to give us financial aid in order

to ensure monetary stability, to avoid financial crisis, and to enable us to control our funds nationally and internationally.

We also need assistance in implementing training programs for law enforcement, judges, fraud investigators, customs officials, and those in the central bank responsible for follow-up.

We need information on the type of activities that criminal organizations commonly use. This will give us the means to conduct anti-money laundering operations and combat the financing of terrorism. We also need to acquire methods of fighting crimes through computers and other modern means. We need modern equipment for the detection and suppression of such operations.

International cooperation is at the heart of the fight against terrorists. This is why we propose the creation of a subregional governmental organization to take the lead in this battle in Sub-Saharan Africa while cooperating with governmental and nongovernmental organizations.

Laurent Tshimanga Mukeba has served as a public prosecutor before the supreme court of the Democratic Republic of Congo since 1989. He has been chief public prosecutor since 1996. In 1999 he represented the Ministry of Justice at meetings in Zambia on the Common Market of Eastern and Southern Africa (COMESA).

Previously he was a prosecutor and state's attorney before appellate courts in Mbandaka, Matadi, Kananga, Lubumbashi, and Kisangani.

Mr. Tshimanga earned his law degree from the Ecole Nationale de Droit et d'Administration in the Republic of Congo

- **François Kanimba**, Governor, Central Bank of Rwanda, Rwanda

Thank you for the opportunity to share with you our efforts to fight money laundering and terrorist finance. These are problems in Rwanda, as in the other African countries. For several years the current government has had a sizable program to confront them.

Response to AML/CFT and Needs for Technical Assistance

In the last three years we have launched a national commission, chaired by our minister of justice, to fight corruption. Since June 2002 we have also had a national commission to fight terrorism, chaired by

the minister of the interior. Last year the central bank, in cooperation with the national police, implemented a national commission to fight economic corruption. A bill to establish the political and legal framework for anti-money laundering operations in Rwanda is being debated by the government.

West Africa's regional cooperation framework encompasses the national security institutions. Rwanda is part of the regional coordination committee for this organization, which meets regularly and has implemented a framework for the exchange of information on terrorist activities. This is very important in the Great Lakes region—a region currently embroiled in conflict and where terrorists pass freely from one country to the next. Rwanda has recently published a report on the fight against terrorism, applying Resolution 1373 of the United Nations. Our report was transmitted to the United Nations in August 2002.

A law implemented in 1999 requires the banks in Rwanda to track funds. When bank officials suspect dirty money, they need to inform the central bank. They should not accept funds suspected of being laundered, or money suspected to be intended to finance terrorism. Recently the central bank created an internal committee to consider integrating activities to fight money laundering and terrorist financing within the framework of an updated financial system.

We are not yet taking into account the new provisions of the international framework when it comes to regulating banks in Rwanda. This needs to be done, and I hope that, as part of our cooperation with the IMF and the World Bank, this issue can be considered.

Key Challenges in Combating Money Laundering and Terrorist Financing

The prevalence of counterfeit money in Rwanda is complicating the issues of money laundering and terrorist financing at the level of the commercial banks and the central bank. In Rwanda we have a parallel exchange system, which makes it more complicated to follow money laundering or terrorism finance activities. Many questions are being raised about this system. The exchange rate is extremely low, and the national police and the central bank are concerned that the parallel market could serve to propel terrorist financing or money laundering operations in the Great Lakes region.

We wish to pursue the issues of money laundering and the financing of terrorism in the framework of international cooperation. We look for help to analyze these problems in depth, and to develop a correct approach to confront the issues.

***Francis Kanimba** is governor of the National Bank of Rwanda. Previously he served as chief economist in the World Bank country office in Kigali. He also held the position of director general in the Rwandan Ministry of Planning.*

Mr. Kanimba holds a diploma in statistics and economics. He attended the African and Mauritius Institute of Statistics and Applied Economics in Kigali, Rwanda.

The Urgency of Regional Collaboration

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

The Group for Inter-Governmental Action against Money Laundering in Africa (GIABA) is charged by member states with adopting coordinated measures to fight money laundering and assessing the efficiency of these measures.

To reinforce cooperation, GIABA will encourage other countries to join the group. Regional and subregional groups are currently being set up. The goal is to implement an African financial action task force against Money Laundering and Terrorism Financing as the framework through which we will reach our objectives.

Another mission of GIABA is to recommend to ECOWAS member states the implementation of international measures such as the action plan against money laundering, the FATF 40 + 8 recommendations, and other treaties and relevant conventions. ECOWAS has already adopted some international anti-money laundering conventions.

I cannot tell you how much money is being laundered in West Africa. That is the first challenge that we have to confront—the challenge of

assessing the magnitude of the problem by an evaluation that is being carried out in the ECOWAS member states

Another challenge is that we cannot distinguish between an investor and someone who is laundering money. Also, there is a lack of awareness on the part of the political authorities. Every time I speak with political authorities, I get the feeling that they do not understand. They think that we are asking them about the color of their money, and they are not really aware of the consequences of money laundering on the economic, financial, monetary, security and political systems.

Another challenge is the lack of awareness of our partners of the financial and banking sectors. The fight against money laundering requires cooperation. Outside the banking system, other partners are not aware. They are not prepared to participate in this fight against this danger. These partners are mainly Lawyers, Insurance Companies, Expert Accountants, Notaries, Property Estates, and Casinos.

The populations of our region, and of Africa in general, are not really aware of the dangers of money laundering. People do not understand why we install systems that make entering countries difficult.

GIABA is ready to implement programs developed by the World Bank and the IMF to help West Africa implement an harmonized draft legislation on money laundering and combating terrorist financing. Draft legislation is now before the parliaments of the subregion and should be implemented at the beginning of next year. We will be able to make our political authorities aware of the dangers of these two problems before the legislation should be implemented.

This project will help us with training—an area where we are lacking—and also help us to set up structures, including financial data collection, to detect money laundering and terrorism financing. Governments and central banks need this help.

These programs will help us elaborate a regional convention to fight money laundering and terrorism financing—as other regional groups throughout the World have done. If we meet these objectives, we can create an effective African financial action task force within the continent.

***Mamadou Lamine Fofana** has been coordinator of the Group for Inter-Governmental Action against Money Laundering in West Africa (GIABA) since June 2001 and national coordinator of Senegal's interministerial antidrug commission since 1996. He served pre-*

viously as general secretary of the Superior Magistracy Council; assistant inspector general and then inspector general of judicial services; and deputy public prosecutor in the Dakar district court.

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

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

The African Development Bank is delighted to take part in this debate on money laundering and the finance of terrorist activities. We have learned many things, and we are satisfied that our clients are implementing programs.

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

I will describe our current AML/CFT activities, taking place at our highest echelons. The president of the bank group has implemented a task force to ensure that the work proceeds in a highly operational manner.

The group is ready to support its client countries in their efforts. Since February 2002, we have observer status within the FATF, and we have integrated into our finance documents provisions against money laundering and terrorist financing. We have already introduced within our correspondent banks a requirement for certificates stating that, to their knowledge, they are not participating in money laundering operations and are not carrying out transactions with terrorist organizations. The heads of state have given the African Development Bank a leadership role in these activities.

The bank considers its role of supporting its clients as threefold. First, we need to ensure that our resources are not being applied directly or

indirectly to support or otherwise further money laundering or terrorist activities. Second, in connection with our vision of being a knowledge and information center in Africa, we see a role—both internally and in original member countries—in highlighting the antidevelopmental effect of these activities. In addition, we envisage providing technical assistance to our regional member countries.

The heads of state have given us a leadership role on infrastructures and on setting up financial and banking standards for Africa. The African Development Bank wishes to coordinate the adoption of standards with the regional institutions involved in the matter. We also seek to promote appropriate policies. We hope to ensure the interface between our clients and institutions such as the FATF to facilitate the adoption of the standards recommended by the FATF.

In May, African Development Bank representatives addressed a New Partnership for Africa's Development (NEPAD) meeting in Ethiopia, making recommendations for measures that should be taken by member countries to combat money laundering and the financing of terrorist activities. There will be other such exchanges.

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

Ms. Akintomide holds a master's of law (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 will talk about the operational aspect of anti-money laundering operations. We at the African Development Bank are responsible for operations. We are in contact with borrower countries, of course, and we are directly involved in financing operations, so this issue is dear to our hearts.

In the framework we are developing, with the help of members of the FATF, we have several goals. The first is to set up a network to

exchange information. This will profit the bank and all of our partners. The second is to develop training programs and capacity development for bank staff as well as for experts in institutions, member countries, and other African countries. The third goal is to bring technical support when needed to make anti-money laundering operations effective, and to implement the 40 + 8 recommendations of the FATF.

Regarding the framework of cooperation, it is important that cooperation not be a one-way street between multilateral institutions such as the World Bank, IMF, and African Development Bank, towards the other partners. Cooperation should go in every possible direction so that we all profit from our mutual experience.

It is important to take advantage of the fact that various African countries, various regions, and the various groups within each region are not at the same level. They have progressed differently when it comes to formulating tools for fighting money laundering.

The bank is available, and it wishes to support itself and its member countries in promoting the initiatives that have been launched. I hope that these initiatives can be furthered in the days to come.

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

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

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

- **Emmanuel Carrère**, Secretary, Anti-Money Laundering Committee for the Franc Zone, Bank of France

The Franc Zone (FZ area), like other regions of the world, is affected by globalization, new payment methods, information technology etc. The FZ regional monetary agreement has resulted in monetary stability and

moderate inflation, both of which are critical pre-requirements to make this region attractive to investors. (See Annex B for more details.)

The FZ authorities recognized in 2000 that there was actually no specific anti-money laundering legislation in the FZ countries. Existing AML frameworks merely aimed at addressing specifically drug trafficking and currency exchange. Although commercial banks and credit institutions apply their own procedures, mostly based on “know your customer” principles, anti-money laundering activities are very rudimentary and lacked a legal framework.

The absence of a comprehensive, coordinated AML approach is potentially harmful because the FZ area, which needs investments, may become a target for money launders. In response, the Franc Zone, like the rest of the African continent, has taken steps to implement appropriate legislation to prevent money laundering.

In their semiannual meeting in September 2000, central bank governors and finance ministers of the FZ area agreed on a process that should lead to the adoption of common standards for new legislation, and to cooperation at the international level, by the end of 2002. On this occasion, ministers and governors stressed that anti-money laundering activities were among their priorities, which materialized in the setting up of the AML Liaison Committee of the Franc Zone. This committee has contributed to several initiatives that have led to devising AML frameworks in West and Central Africa constituencies (West African Economic and Monetary Union –WAEMU and the Central Africa Economic and Monetary Community –CAEMC), as well as in the Comoros.

Co-operation in the field of AML within the FZ is benefiting from a long tradition of regional co-operation, similar judicial system and legal framework, and also from the experience of the monetary co-operation under the auspices of the Franc Zone institutions. The regional bodies of WAEMU and CAEMC are represented on the FZ’s AML Liaison Committee, as are sub-regional banking commissions, and Zone franc partners, that is a total about ten members. The committee’s objective is to facilitate consultation and co-ordination among members, and to promote sub-regional initiatives. It also seeks to raise awareness of financial partners through meetings in the sub-region. It also provides technical assistance to facilitate the adoption of FATF resolutions and recommendations. The Central Banks of the Zone franc (BCEAO in the WAEMU and BEAC in the CAEMC), as well as the Bank of France, play

a key role in the on-going efforts to set up AML legal frameworks in those regions.

The Liaison Committee working framework is very participative and ownership-oriented, allowing consultation with development partners and representatives of all member countries. Government authorities have shown that they have become more aware of issues at stake and active in dealing with them. As a result of on-going efforts, the WAEMU has officially adopted a legal AML framework on 19 September 2002 and the CAEMC is about to do so in December 2002.

I would like to say a few words about Comoros. They are not here yet, but they took the initiative at the beginning of 2001 to develop an AML framework. They have drafted legislation on money laundering and confiscation.

The Bank of France will continue sharing information and experience, bilaterally and multilaterally, in particular with IMF and the World Bank.

Since 1997, Emmanuel Carrère is Head of the Franc Zone Division in the Directorate for research and international relations of the Bank of France. In this position, Mr Carrère, acting as Secretary of the Monetary Committee of the Zone franc, supervises the annual edition of the "Rapport de la Zone franc", which covers the economic and monetary outlook of the Franc Zone countries (see [www.banque-france.fr/zone franc](http://www.banque-france.fr/zone%20franc)). He is also, since December 2001, a member of the Executive Board of the Banque des Etats de l'Afrique centrale (BEAC), as a deputy-director. Mr Carrère published several articles on international economic issues, among which two papers on the pegging of the CFA franc to the euro: « Le rattachement du franc CFA à l'euro », Lettre du CFCE, mars 1999 and « L'euro et l'avenir du franc CFA », Presses de l'Artois, avril 2000.

Previously, he was senior field auditor for credit organizations in the Bank of France's office of the Inspector General. From 1994 to 1996 he was seconded to the Basel Committee at the Bank for International Settlements (BIS), where he was responsible for co-ordination of technical assistance for emerging countries.

Mr. Carrère is a graduate of the Institut d'Études Politiques de Paris (Sciences-Po) and of the Graduaee School of Management of Lyon (EM Lyon).

- **Patrick Moulette**, Executive Secretary, Financial Action Task Force on Anti-Money Laundering

We thank the World Bank for giving us the opportunity to participate in this videoconference.

The Financial Action Task Force (FATF) is an independent international body whose purpose is the development and promotion of policies to

combat money laundering and terrorist financing. It is comprised of 29 member governments and 2 regional organizations.

Headquartered at the OECD in Paris, the FATF has a triple mission. Its experts analyze methods and techniques of money laundering, develop international standards to fight the problem, and supervise and promote the implementation of anti-money laundering standards in member countries.

The FATF is known by its recommendations. There are two types of recommendations. Our list of 40 anti-money laundering activities has existed since 1990; it was revised in 1996. It is still being revised, because money laundering is a phenomenon that evolves. Our recommendations on terrorist financing activities date from October 2001.

Of course, the FATF cannot work alone. Our strategy is based on the development and support of regional organizations of the FATF type. All countries must cooperate to fight the threats of money laundering and terrorist financing. Our strategy is to develop, support, and promote—in all regions of the world—organizations similar to the FATF. Some of these groups already exist. They are operational in the Caribbean, in Asia-Pacific, in South America, and in Europe. Other initiatives are now being implemented, in particular in the various subregions of Africa. These groups have missions similar to the FATF. They are extending their mandate to fight terrorist financing.

There is a lot of cooperation between the FATF and the regional groups, which deal with local problems that can only be understood at the local level. That is why the regional groups have been developed all over the world since the beginning of the 1990s. We believe it is extremely important to cooperate with them.

We hope soon to have a world network for fighting money laundering and terrorist financing.

Patrick Moulette is executive secretary of the Financial Action Task Force on Money Laundering (FATF), a post he assumed in 1995, after having been involved in the FATF's work for several years. Before joining the FATF secretariat, Mr. Moulette was an official in the French Ministry of Finance.

Mr. Moulette's position involves the identification and development of policies to combat money laundering and terrorist financing. His responsibilities also include the elaboration and implementation of the FATF's outreach activities.

Mr. Moulette is a graduate of the Institut d'Etudes Politiques de Paris. He holds master's degrees in public law and in corporate law.

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

I first wish to thank the World Bank and the IMF for having invited the United Nations Global Programme against Money Laundering (GPML) to participate in these very interesting discussions.

The GPML supports the member states of the United Nations as they develop systems to fight money laundering, while taking into account the new obligations of combating terrorist 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 achievement of this objective. It promotes sensitizing activities. It gives direct aid in writing and analyzing legislation. It supports countries as they implement laws—through training programs targeting legal authorities, financial authorities, 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.

For the African continent, and the countries discussed today, our goals are threefold:

- To support the development of legislative and regulatory frameworks for operations to combat money laundering and terrorist financing while insisting on compatible, harmonized legislation to foster cooperation at a regional and international levels
- To generate and/or support structures favoring regional cooperation

- To coordinate our activities with those of our various partners.

Our technical assistance actions follow this pattern. Most of the countries, which are participating in the Dialogue today, are members of the AML regional Group, GIABA in Western Africa and GABAC in Central Africa. GPML supports the development of these Groups by contributing to the seminars, meetings, technical workshops which they organize or which relate to their development. We have an observer status with both. It is our wish that these groups launch their operational activities—we will be able to bring them more direct support when they do, and we wish to see them play an important role in their respective regions.

Let me also mention that the UN Office on Drugs and Crime has also provided assistance to a number of countries participating in this Dialogue, by organizing national or regional pre-ratification seminars for the new UN Convention against Transnational Organized Crime.

I first wish to thank the World Bank and the IMF for having invited the United Nations Global Programme against Money Laundering (GPML) to these very interesting discussions.

The GPML supports the member states of the United Nations as they develop systems to fight money laundering, while taking into account the new obligations of battling terrorist financing. In 1998 the UN General Assembly issued a declaration on money laundering and adopted an action plan calling for anti-money laundering legislation by 2003.

Our program offers technical assistance at various levels. It promotes sensitizing activities. It gives direct aid in writing and analyzing legislation. It supports countries as they implement laws—through training programs targeting legal authorities, financial authorities, and the financial sector. We have concentrated an important part of this assistance over the last few years on developing financial intelligence units.

For the African continent, and this region, our goals are threefold:

- To support the development of legislative and regulatory frameworks for operations to combat money laundering and terrorist financing while insisting on compatible, harmonized legislation to ensure cooperation at a regional and international level

- To generate structures favoring regional cooperation
- To coordinate our activities with those of our various partners.

Our technical assistance actions follow this pattern. Regional groups are created; the GPML associates itself with them and supports them. We have the status of an observer with these groups, and we are thankful for that. We take part in seminars, ministerial meetings, and technical workshops to discuss the statutes of the regional groups. We take part in the GIABA training seminars, for example.

We wish to see these groups launch their operational activities—we will be able to bring them more direct support when they do, and they will have an important role in their regions.

Before the ratification of the new convention on transnational organized crime we worked with various countries at a regional level. We supported them as they implemented and harmonized legal codes, and as they applied the international convention on organized crime. We are ready to consider individual requests, and to take part in initiatives launched by our partners. We are here to lend a helping hand in regional operations against money laundering and terrorist financing.

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.

Open Discussion

Videoconference participants raised several themes during the open discussion period—among them information sharing among professionals, technical assistance components of World Bank and IMF programs, and the struggle against money laundering as a component of economic liberalization.

Information Sharing among Professionals

A participant from Rwanda asked how various professional groups—attorneys, accountants, law enforcement officers, and other experts—might be induced to share information useful for campaigns against money laundering. The representatives of the World Bank agreed that information sharing was a critical issue, one now under intense discussion all over the globe. At issue is the correct balance between privacy and combating money laundering and terrorist financing.

One promising way to approach the issue is through professional standards. The Financial Action Task Force is revisiting standards for attorneys, accountants, and other intermediaries that deal with finances. However, it might be some time before specific standards may be reached to deal satisfactorily with these intermediaries.

World Bank and IMF Programs and Technical Assistance

To what extent can anti-money laundering concerns be integrated into ongoing World Bank and IMF programs? Will current programs be adjusted to incorporate the money laundering issues?

The World Bank and IMF representatives in attendance made it clear that the struggle against money laundering should not be conducted at the expense of other priority needs in the financial sector. Instead, that struggle must be seen as supplemental. Although the focus of the two institutions will remain on developmental issues, they will put additional resources into fighting money laundering and terrorist financing.

The World Bank representatives also noted how important it was to develop regional cooperation by helping GIABA and GABAC to grow and develop, and by providing support to their membership.

An IMF representative confirmed that the African Technical Assistance Center, modeled on two other centers that have been successful in the Pacific and Caribbean regions, would indeed be used to deliver assistance in the fight against money laundering. The center identifies needs that cannot be detected from the distance at which most IMF staff sit. It will also help in coordinating the delivery of assistance.

Anti-Money Laundering in the Context of Economic Liberalization

The IMF recommends that countries liberalize exchange regulations, and many countries have done so. The liberalization allows residents and foreigners to enter the country with funds with little or no control. One participant observed that these changes have made it more difficult to set up measures to prevent money laundering. The participant reminded the group that in most African countries, funds brought into the country are very likely to enter the extensive informal sector and thus not be subject to further control.

A World Bank representative agreed that there appeared to be some conflict between liberalizing exchange and fighting money laundering, a goal that appears to call for a greater, not lesser, degree of regulation and control. But the tension is unavoidable in efforts to open up an economy. Moreover, said the Bank representative, money laundering

must be dealt with in a broader context. No control measure will succeed where the judiciary and financial systems are weak.

Moving Forward

Several comments focused on next steps. The lesson to be drawn from the videoconference, participants observed, was the need to quickly implement cooperation and dialogue mechanisms between the various regional institutions and international institutions that work in Africa so that together stakeholders might implement a coherent technical assistance program and regional institutions might quickly become fully operational.

Participants agreed on the need to continue the dialogue among the multilateral and regional institutions working on money laundering issues. But even more important, the group believed, was the need for countries to continue the dialogue among themselves to learn from each other's experiences.

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. In that light it is obvious that significant technical assistance and training is necessary for the region.

One common thread noted in 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 also critical.

Another important issue that can affect AML/CFT regimes and their development is regional cooperation, as mentioned by the representatives of the African Development Bank. I would encourage everyone to support and join the regional FATF-style bodies in their region to further enhance opportunities for regional cooperation. The regional FATF-style body is, I believe, a crucial avenue for fostering the development of anti-money laundering regimes.

Other areas important in the region are cross-border transactions, nonbank financial institutions, informal remittance systems, and the use of precious stones and other natural resources in money laundering operations.

While initial progress toward developing AML/CFT regimes has been made by some countries in the region, much work and assistance is needed to move forward.



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

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

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

Annex A: Money Laundering and its Broader Context

Money Laundering and its Broader Context:

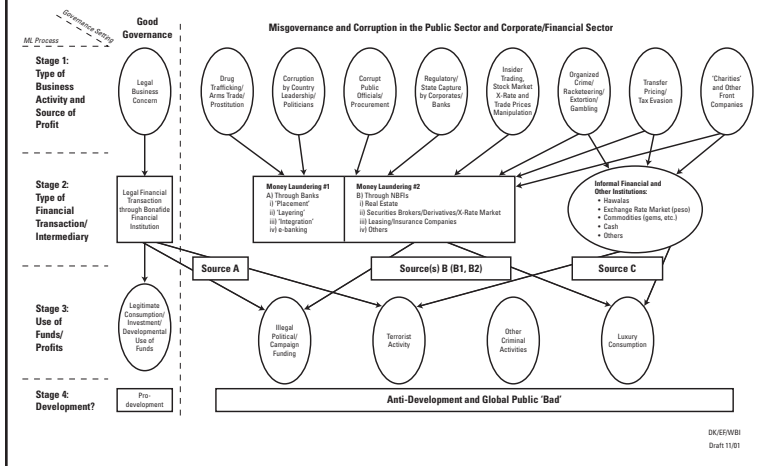
Public, Private, and Financial Sector Governance
Matters Enormously to a Diagnosis and Understanding
of the Causes and Consequences of Money Laundering

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

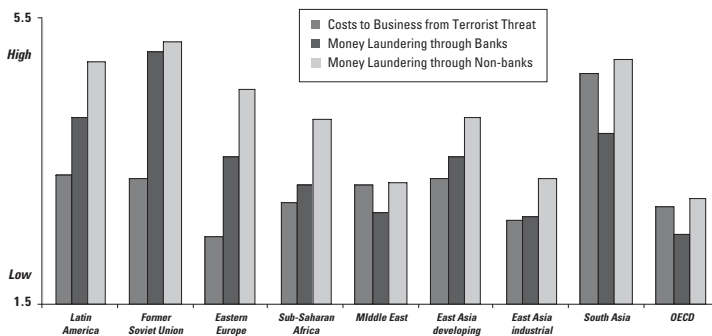
Background Empirical Materials for Discussion

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

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



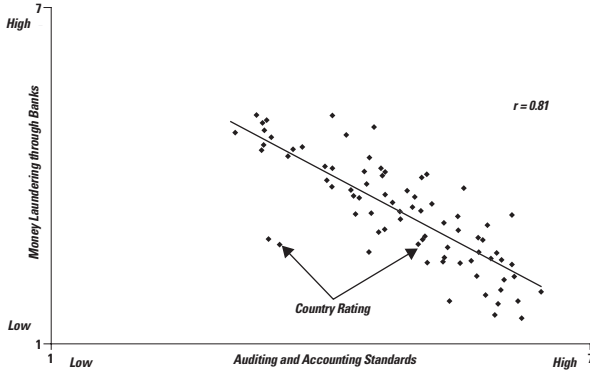
Money Laundering and Terrorism — 2002 Preliminary Regional Averages Based on Reports from Firms in 80 Countries



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

Source: Global Competitiveness Survey 2000.

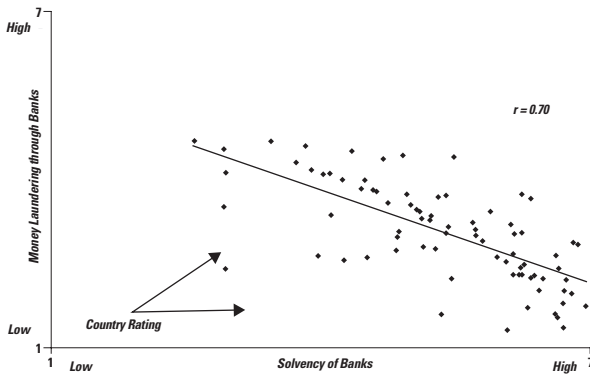
Money Laundering (through Banks) and Auditing and Accounting Standards



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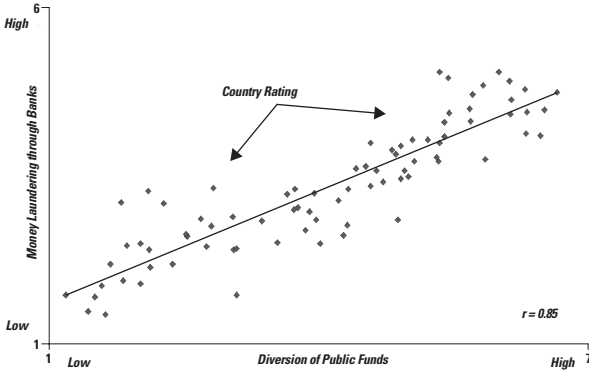
Money Laundering (through Banks) and Solvency of Banks



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Source: Global Competitiveness Survey 2000.

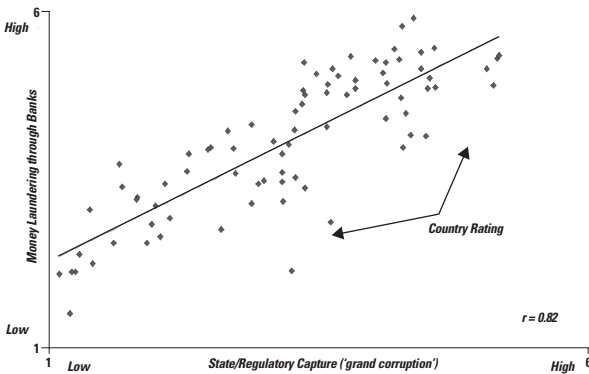
Money Laundering (through Banks) and Diversion of Public Funds



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.

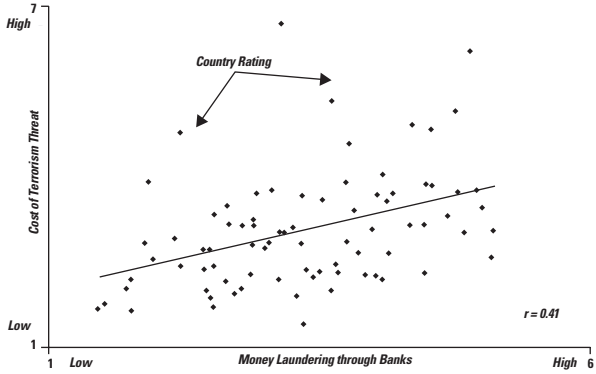
Non-Bank Money Laundering and Capture of the State



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.

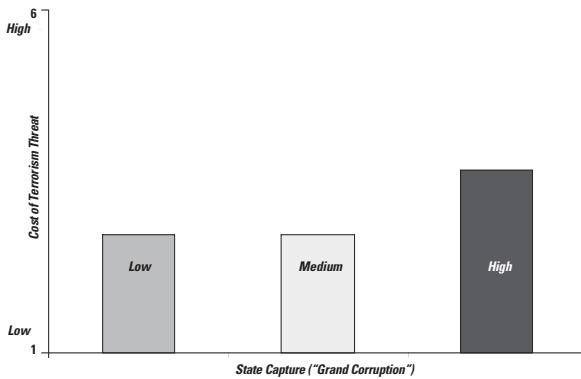
Cost of Terrorism Threat and Money Laundering (through Banks)



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

Annex B: Combating Money Laundering in the Zone Franc Area

The impetus given by the ministers of finance and central bank governors of the Zone franc area

In the absence of any specific anti-money laundering legislation in the Zone franc area, the ministers of finance and central bank governors of the Zone franc area had stressed, at their meetings in Paris in September 2000 and Abidjan in April 2001, the necessity of adopting legal standards for incriminating and preventing money laundering by the end of 2002, in accordance with the FATF recommendations. The ministers of finance had asked the group set up in 2000 to combat money laundering (Comité de liaison anti-blanchiment de la Zone franc – CLAB) to step up its awareness-raising initiatives and its technical support. In this context, the CLAB has, in particular, been involved in the co-ordination of the initiatives described below.

WAEMU initiatives

An intergovernmental group charged with combating money laundering in Africa (Groupe Intergouvernemental d'Action contre le Blanchiment de l'Argent en Afrique—GIABA) was set up in November 2000, as part of the initiatives launched by the West African Economic Community.

Besides, in accordance with the decisions taken by the WAEMU Council of Ministers, the Central Bank of West African States drew up a draft directive on anti-money laundering and a draft regulation on the freezing of funds and other financial resources in the framework of the fight against the financing of terrorism. These proposals, which were drawn up together with government representatives and development partners, were approved by the Board of Directors of the Central Bank of West African States and by the Council of Ministers of the West African Monetary Union in June 2002, and then adopted by the WAEMU Council of Ministers on September 19, 2002. The directive shall become a uniform Act, which WAEMU member States are required to transpose into their national legislation within the time-frame set by the Council of Ministers. The regulation on the freezing of funds shall be directly applicable in each one of the eight countries as soon as it is adopted by the WAEMU Council of Ministers.

CAEMC initiatives

In 2001, the CAEMC's key anti-money laundering initiative was the adoption of the statutes of the Central African anti-money laundering group (Groupe d'Action contre le Blanchiment en Afrique Centrale – GABAC), in line with those of the FATF. In addition, anti-money laundering community legislation is in the process of being drafted under the aegis of the Bank of Central African States. This piece of legislation should fill the gap which currently exists in the law as regards anti-money laundering in CAEMC countries; it should be adopted by the Council of Ministers of the Central African Monetary Union by the end of December 2002. Therefore, the GABAC will, from the outset, be able to base its action on appropriate legislation.

The initiatives of the Comoros

At the start of 2001, the Central Bank of the Comoros decided to set up a specific operation for combating money laundering in the Comoros. In 2001, an anti-money steering committee completed a "bill on money laundering, confiscation and international co-operation as regards the proceeds of crime". It is largely based on the type of legislation put forward by the United Nations International Drug Control Programme (UNIDCP). The anti-money laundering Act should be submitted for adoption following the next general elections and, at the latest, by the end of 2002.

