INTERNATIONAL MONETARY FUND
FACTSHEET

The IMF and the Fight Against Money Laundering and the Financing of Terrorism

"Money laundering and the financing of terrorism are financial crimes with economic effects. They can threaten the stability of a country's financial sector or its external stability more generally. Effective anti-money laundering and combating the financing of terrorism regimes are essential to protect the integrity of markets and of the global financial framework as they help mitigate the factors that facilitate financial abuse. Action to prevent and combat money laundering and terrorist financing thus responds not only to a moral imperative, but also to an economic need."

–Min Zhu, Deputy Managing Director of the IMF

Money laundering is a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity. Terrorist financing involves the raising and processing of assets to supply terrorists with resources to pursue their activities. While these two phenomena differ in many ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and non-transparency in the execution of financial transactions.

In 2000, the IMF responded to calls from the international community to expand its work in the area of anti-money laundering (AML). After the tragic events of September 11, 2001, the IMF intensified its AML activities and extended them to include combating the financing of terrorism (CFT). In March 2014, the IMF's Executive Board reviewed the Fund's AML/CFT strategy and gave strategic directions for the work ahead (see below). In May 2014, the IMF started the second 5-year phase of a donor-supported trust fund that complements existing accounts financing AML/CFT capacity development activities in its member countries.

A threat to economic and financial stability

The international community has made the fight against money laundering and terrorist financing a priority. The IMF is especially concerned about the possible consequences money laundering, terrorist financing, and related crimes have on the integrity and stability of the financial sector and the broader economy. These activities can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows. They may have negative consequences for a country's financial stability and macroeconomic performance, resulting in welfare losses, draining resources from more productive economic activities, and even have destabilizing spillover effects on the economies of other countries. In an increasingly interconnected world, the negative effects of these activities are global, and their impact on the financial integrity and stability of countries is widely recognized. Money launderers and terrorist financiers exploit both the complexity inherent in the global financial system as well as differences between national AML/CFT laws and systems, and they are especially attracted to jurisdictions with weak or ineffective controls where they can more easily move their funds without detection. Moreover, problems in one country can quickly spread to other countries in the region or in other parts of the world.

Strong AML/CFT regimes enhance financial sector integrity and stability, which in turn facilitate countries' integration into the global financial system. They also strengthen governance and fiscal administration. The integrity of national financial systems is essential to financial sector and macroeconomic stability both at the national and international levels.

International standards guide effective AML/CFT regimes

The Financial Action Task Force on Money Laundering (FATF), a 36-member inter-governmental body established by the 1989 G7 Summit in Paris, has primary responsibility for developing a worldwide standard for AML and CFT. It works in close cooperation with other key international organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRBs).

In order to help national governments implement effective AML/CFT regimes, the FATF issued a list of recommendations which set out a basic, universally applicable framework of measures covering the criminal justice system, the financial sector, certain non-financial businesses and professions, transparency of legal persons and arrangements, and mechanisms of international cooperation. In February 2012, these recommendations were revised and updated (The FATF Recommendations). In February 2013, the FATF adopted a revised common Methodology for Assessing Technical Compliance with the FATF Recommendations and the Effectiveness of AML/CFT Systems. The first assessments under the new Methodology have now started. The work of the FATF, as well as the IMF's AML/CFT efforts, have been supported by the G7 and the G20, most recently in the context of initiatives to address corruption and cross-border tax evasion.

The IMF's role in AML/CFT efforts

During the past 15 years, the IMF's efforts in this area helped shape domestic and international AML/CFT policies. They included over 70 AML/CFT assessments, multiple involvements in Article IV consultations, Financial Sector Assessment Programs (FSAPs), and inputs into the design and implementation of financial integrity-related measures in Fund-supported programs, as well as a large number of capacity development activities, and research projects. The IMF's broad experience in exercising surveillance over members' economic systems, conducting financial sector assessments, and providing capacity development to its member countries has been particularly helpful in providing financial integrity advice in the context of surveillance, evaluating countries' compliance with the international AML/CFT standard and in developing programs to help them address identified shortcomings.

In line with a growing recognition of the importance of financial integrity issues for the IMF, the AML/CFT program has evolved over the years. In 2004, the Executive Board agreed to make AML/CFT assessments and capacity development activities a regular part of IMF work. On June 1, 2011, the Executive Board discussed a report reviewing the evolution of the IMF's AML/CFT program over the past five years and provided guidance as to how to move forward in this area. The key outcomes of the discussion can be found here, and notably include the endorsement to address financial integrity issues in surveillance on a mandatory basis in specific circumstances. Following up on the Executive Board discussion, on December 14, 2012, a Guidance Note on the inclusion of AML/CFT in surveillance and financial stability assessments (FSAs) was issued. It provides a framework to deal with cases where money laundering, terrorism financing, and related crimes are so serious as to threaten domestic stability, balance of payments stability, the effective operation of the international monetary system—in the case of Article IV surveillance, or the stability of the domestic financial system—in the case of FSAs.

On March 12, 2014, the Board reviewed the Fund's AML/CFT strategy. It notably (i) endorsed the revised FATF AML/CFT standard and assessment methodology, (ii) encouraged staff to continue its efforts to integrate financial integrity issues into its surveillance and in the context of Fund-supported programs, when financial integrity issues are critical to financing assurances or to achieve program objectives, and (iii) decided that AML/CFT issues should continue to be addressed in all FSAPs but on a more flexible basis.

With respect to capacity development, in April 2009, the IMF launched a donor-supported trust fund—the first in a series of Topical Trust Funds (TTF)—to finance capacity development in AML/CFT. This first phase ended in April 2014. In light of the success of the program and of continuing high demand for capacity development in this area, a new five-year phase of the TTF started in May 2014 for a new five year period. Donors (France, Japan, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland and the United Kingdom) have together pledged more than $20 million over the next five years to support this new Phase. As of September 2015, 17 projects have already started under the second phase. The TTF complements existing accounts that finance the IMF's AML/CFT capacity development activities in member countries, bringing the number of countries assisted each year to over 30 and totaling over $6.5 million annually in direct technical assistance and training.