



# IMF POLICY PAPER

## 2023 REVIEW OF THE FUND'S ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM STRATEGY

December 2023

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following documents have been released and are included in this package:

- A **Press Release** summarizing the views of the Executive Board as expressed during its November 20, 2023, consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on October 23, 2023, for the Executive Board's consideration on November 20, 2023.

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**International Monetary Fund**  
**Washington, D.C.**





## IMF Executive Board Discusses the Fund's Strategy on Anti-Money Laundering and Combating the Financing of Terrorism

### FOR IMMEDIATE RELEASE

**Washington, DC – December 5, 2023:** On November 20, 2023, the Executive Board of the International Monetary Fund (IMF) discussed the staff report: “Review of the Fund’s Strategy on Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT).” The staff report takes stock of the implementation of the Fund’s AML/CFT program adopted by the Executive Board in 2018, identifies lessons learned, and seeks the Executive Board’s endorsement of the proposals for the way forward. The report provides an overview of the current approach by staff towards money laundering (ML) and terrorism financing (TF) risks and context, followed by an in-depth analysis of staff’s work under key Fund workstreams—surveillance, financial sector assessment programs (FSAPs), Fund-supported programs, AML/CFT assessments, and capacity development (CD). It also describes how AML/CFT issues have been integrated into other Fund policies and how staff has contributed to the global AML/CFT agenda through close coordination with other stakeholders to leverage synergies and avoid duplication of work. Based on these findings, the paper proposes the way forward for the Fund’s AML/CFT strategy by deepening further the integration of financial integrity issues in the Fund’s core functions through enhanced focus on AML/CFT issues that have macroeconomic impact and sets out issues for discussion.

Since the 2018 review of the Fund’s AML/CFT strategy, the coverage of financial integrity issues has increased across all workstreams. Staff enhanced its understanding of ML/TF risks and of the macroeconomic impact of financial crimes, based on a wide range of quantitative and qualitative data, which has guided the Fund’s engagements with member countries. This review highlights an increased coverage of AML/CFT issues in surveillance and related conditionality in Fund-supported programs. Staff has provided input on AML/CFT in every FSAP, making full use of the flexibility in scope and depth afforded, and contributed to the broader discussion of the stability and soundness of members’ financial sectors, while avoiding duplication with AML/CFT assessments against the international standards set by the Financial Action Task Force (FATF). The increase in regional, multi country, and thematic CD projects has resulted in assistance to a broader range of countries and enhanced flexibility for targeted and more effective and impactful engagements. Staff’s active participation in AML/CFT assessments by the FATF Global Network has effectively contributed to its assessment efforts. The current policy to conduct one to two assessments per year has allowed staff to deliver one assessment per year given the length of these exercises, while also increasing staff’s participation in the review of the quality and consistency of draft assessment reports prepared by other assessor bodies which are essential for the IMF’s work and to help ensure a more evenhanded approach in conducting assessments, and in training assessors and assisting countries preparing for assessments. In addition, staff has participated in an assessment led by a FATF-style regional body, pursuant to the policy endorsed by the Board in 2020.

## Executive Board Assessment<sup>1</sup>

Executive Directors welcomed the opportunity to review the Fund's AML/CFT Strategy. They stressed that addressing ML, TF, and proliferation financing risks is integral to the Fund's mandate to support the integrity and stability of the international financial system and member countries' economies. They welcomed the staff's stocktaking of the progress that has been made and the lessons learned. They agreed with the overall direction to continue to enhance staff's understanding of the nature and severity of financial integrity risks, with a greater focus on assessing and mitigating negative macroeconomic impacts, which will help staff further prioritize the depth and scope of its engagements. They emphasized that staff should continue to rely on the multipronged approach and synergies across the Fund's various workstreams to support individual member countries' efforts in enhancing the effectiveness of their AML/CFT frameworks.

Directors supported the proposed approach on surveillance, where staff will put greater focus on the linkages between financial integrity issues and fiscal, financial sector, and structural priorities. They agreed that staff should continue to cover financial integrity issues under the current principles of engagement and deepen its coverage in an evenhanded manner, commensurate with the risks faced by members, on a mandatory basis when these issues are macro-critical and on a voluntary basis when requested by the member country. With regard to FSAPs, Directors concurred that the current policy of mandatory coverage of AML/CFT issues with flexibility in scope and depth remains appropriate and supported staff's proposal to put greater emphasis on the nexus between financial integrity and financial stability. Directors also agreed with the proposed approach on Fund supported programs, where staff will continue to use its own judgment and expertise in designing financial integrity and AML/CFT conditionality in line with program objectives and subject to the principles of criticality, parsimony, and avoiding cross conditionality. Directors also noted the importance of better understanding political economy constraints. A number of Directors emphasized the need for flexibility and technical support for members with capacity weaknesses. In this context, a few Directors considered that it is preferable to address AML/CFT issues through tailored CD support.

Directors welcomed the CD activities delivered by staff to member countries and agreed that, in line with the Fund's CD strategy, staff should continue to provide comprehensive CD support with greater flexibility to respond to the evolving demand from the membership and deepen support for other Fund workstreams. They noted that a better understanding of ML/TF risks will allow staff to continue to further develop the CD program in line with evolving risks such as those related to digital money, laundering of the proceeds of corruption, tax evasion, and environmental crimes. Directors reiterated the need to continue to coordinate with other technical assistance providers to maximize efforts and avoid duplication of efforts.

Directors concurred that staff should continue to integrate financial integrity issues in other Fund policies. They also welcomed staff's proposal to deepen its engagement with a broader range of external stakeholders, including through enhanced collaboration with other

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<sup>1</sup> An explanation of any qualifiers used in summings up can be found here:

<http://www.imf.org/external/np/sec/misc/qualifiers.htm>.

international and regional organizations and civil society, and leverage global and regional partnerships to maximize the impact of the Fund's AML/CFT work program while focusing on its comparative advantage.

Directors highlighted the importance of the Fund's continued engagement in AML/CFT assessments with a focus on quality and consistency. They generally supported or were open to staff's proposal to increase gradually its assessment-related work, to be able to deliver two Fund-led assessments and participate in one FSRB-led assessment per year from FY 2028 onward, without prejudice to other core workstreams and subject to the reallocation of resources to enable this increase. Some Directors, nonetheless, considered the current pace of assessments to be broadly adequate. Directors looked forward to considering staff's proposal to increase its assessment work in the context of the medium term budget process.

Directors noted that the next review of the AML/CFT Strategy would be expected to be completed within the next five years.

November 22, 2023

**The Acting Chair's Summing Up  
2023 Review of the Fund's Anti-Money Laundering and  
Combating the Financing of Terrorism Strategy  
Executive Board Meeting 23/87  
November 20, 2023**

Executive Directors welcomed the opportunity to review the Fund's Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Strategy. They stressed that addressing money laundering (ML), terrorist financing (TF), and proliferation financing risks is integral to the Fund's mandate to support the integrity and stability of the international financial system and member countries' economies. They welcomed the staff's stocktaking of the progress that has been made and the lessons learned. They agreed with the overall direction to continue to enhance staff's understanding of the nature and severity of financial integrity risks, with a greater focus on assessing and mitigating negative macroeconomic impacts, which will help staff further prioritize the depth and scope of its engagements. They emphasized that staff should continue to rely on the multipronged approach and synergies across the Fund's various workstreams to support individual member countries' efforts in enhancing the effectiveness of their AML/CFT frameworks.

Directors supported the proposed approach on surveillance, where staff will put greater focus on the linkages between financial integrity issues and fiscal, financial sector, and structural priorities. They agreed that staff should continue to cover financial integrity issues under the current principles of engagement and deepen its coverage in an evenhanded manner, commensurate with the risks faced by members, on a mandatory basis when these issues are macro-critical and on a voluntary basis when requested by the member country. With regard to financial sector assessment programs, Directors concurred that the current policy of mandatory coverage of AML/CFT issues with flexibility in scope and depth remains appropriate and supported staff's proposal to put greater emphasis on the nexus between financial integrity and financial stability. Directors also agreed with the proposed approach on Fund-supported programs, where staff will continue to use its own judgment and expertise in designing financial integrity and AML/CFT conditionality in line with program objectives and subject to the principles of criticality, parsimony, and avoiding cross-conditionality. Directors also noted the importance of better understanding political economy constraints. A number of Directors emphasized the need for flexibility and technical support for members with capacity weaknesses. In this context, a few Directors considered that it is preferable to address AML/CFT issues through tailored capacity development (CD) support.

Directors welcomed the CD activities delivered by staff to member countries and agreed that, in line with the Fund's CD strategy, staff should continue to provide comprehensive CD support with greater flexibility to respond to the evolving demand from the membership and deepen support for other Fund workstreams. They noted that a better understanding of ML/TF risks will allow staff to continue to further develop the CD program in line with evolving risks such as those related to digital money, laundering of the proceeds of corruption, tax evasion, and environmental crimes. Directors reiterated the need to continue to coordinate with other technical assistance providers to maximize efforts and avoid duplication of efforts.

Directors concurred that staff should continue to integrate financial integrity issues in other Fund policies. They also welcomed staff's proposal to deepen its engagement with a broader range of external stakeholders, including through enhanced collaboration with other international and regional organizations and civil society, and leverage global and regional partnerships to maximize the impact of the Fund's AML/CFT work program while focusing on its comparative advantage.

Directors highlighted the importance of the Fund's continued engagement in AML/CFT assessments with a focus on quality and consistency. They generally supported or were open to staff's proposal to increase gradually its assessment-related work, to be able to deliver two Fund-led assessments and participate in one Financial Action Task Force style regional body-led assessment per year from FY 2028 onward, without prejudice to other core workstreams and subject to the reallocation of resources to enable this increase. Some Directors, nonetheless, considered the current pace of assessments to be broadly adequate. Directors looked forward to considering staff's proposal to increase its assessment work in the context of the medium-term budget process.

Directors noted that the next review of the AML/CFT Strategy would be expected to be completed within the next five years.



October 23, 2023

## 2023 REVIEW OF THE FUND'S ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM STRATEGY

### EXECUTIVE SUMMARY

**Financial integrity issues—including money laundering, terrorist financing, and proliferation financing (ML/TF/PF)—continue to pose a threat to IMF members' financial sectors and the broader economy.** Financial crimes can result in destabilizing inflows and outflows, banking crises, and pressure on correspondent banking relationships (CBRs) and pose financial stability and reputational risks for financial centers. They can also create asset bubbles, affect tax revenue, fuel the development of the informal sector, and weaken the role of institutions. Mitigating the harms of financial crimes contributes to improving the prosperity of Fund members. The Fund is in a unique position to provide policy advice to member countries to address these risks that can have macro-critical impacts. As the Fund's anti-money laundering and combating the financing of terrorism (AML/CFT) program has evolved over the past two decades, the recognition of the significance of AML/CFT issues led to mainstreaming the coverage in the Fund's surveillance and lending in 2012. The need to address AML/CFT issues was also highlighted in a wide range of the Fund policies.

**This 2023 review takes stock of the implementation of the Fund's AML/CFT strategy adopted in 2018, identifies lessons learned, and seeks the Executive Board's endorsement of the proposals for the way forward.** The paper overviews the current approach towards ML/TF risks and context, followed by in-depth analysis of staff's work under key Fund workstreams—surveillance, financial sector assessment programs (FSAPs), Fund-supported programs, AML/CFT assessments, and capacity development (CD)—based on a stocktaking from a wide range of stakeholders. It also describes how AML/CFT issues have been integrated into other Fund policies and how staff has contributed to the global AML/CFT agenda through close coordination with other stakeholders to leverage synergies and avoid duplication of work. Based on these findings, the paper proposes the way forward for the Fund's AML/CFT strategy and sets out issues for discussion.

**Since the 2018 review of the Fund's AML/CFT strategy, the coverage of financial integrity issues has increased across all workstreams.** Staff enhanced its understanding of ML/TF risks and of the macroeconomic impact of financial crimes, based on a wide range of quantitative and qualitative data, which has guided the Fund's engagements with member countries. This review highlights an increased coverage of AML/CFT issues in surveillance and related conditionality in Fund-supported programs.

Staff has provided input on AML/CFT in every FSAP, making full use of the flexibility in scope and depth afforded, and contributed to the broader discussion of the stability and soundness of the financial sector, while avoiding duplication with AML/CFT assessments against the international standards set by the Financial Action Task Force (FATF). The increase in regional, multi-country, and thematic CD projects has resulted in assistance to a broader range of countries and enhanced flexibility for targeted and more effective and impactful engagements. Staff's active participation in AML/CFT assessments has effectively contributed to the FATF Global Network's assessment efforts. The current policy to conduct one to two assessments per year has allowed staff to deliver one assessment per year (given the length of these exercises), while also increasing staff's participation in the review of the quality and consistency of draft assessment reports prepared by other assessor bodies (which are essential for the IMF's work and to help ensure a more evenhanded approach in conducting assessments), and in training assessors and assisting countries preparing for assessments. In addition, staff has participated in an assessment led by a FATF-style regional body (FSRB), pursuant to the policy endorsed by the Board in 2020.

**Going forward, staff will further deepen the integration of financial integrity issues in the Fund's core functions through enhanced focus on AML/CFT issues that have macroeconomic impact.** Staff will continue to enhance its understanding of the nature and severity of ML, underlying crimes, and TF risks with a further focus on macroeconomic issues including cross border financial flows and the impact of ML failures on financial stability, helping staff further prioritize the depth and the scope of future engagements. Staff will also put greater focus on the linkages between financial integrity issues and fiscal, financial sector, and structural reforms in surveillance and on the nexus between financial integrity and financial stability in FSAPs. On Fund -supported programs<sup>2</sup>, in line with the review of the Fund's precautionary facilities, staff will continue to use its judgment in assessing members' AML/CFT vulnerabilities and will design appropriate conditionality when it is critical to achieve program objectives. Staff will continue to provide comprehensive CD support with greater flexibility to respond to demands and to deepen support for other Fund workstreams, while aligning further AML/CFT CD engagements with the Fund's CD strategy and continuing to upgrade its CD tools to respond to emerging risks. Furthermore, staff will continue its contribution to the global AML/CFT assessment efforts by leading assessments and by participating in assessments led by other bodies, training assessors, and supporting countries preparing for their assessments, and quality and consistency reviews. Additional direct assessment work has been requested by some key stakeholders, for which additional resources would need to be made available to ensure that this additional work is done without undermining AML/CFT work in other core areas such as surveillance, FSAPs, and use of the Fund's resources.

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<sup>2</sup> Such as Stand By Arrangement, Extended Fund Facility,

Approved By  
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## Acronyms and Abbreviations

AFR	African Department
AIV	Article IV
AML/CFT	Anti-Money Laundering and Combating the Financing of Terrorism
APD	Asia and Pacific Department
APG	Asia Pacific Group on Money Laundering
BCP	Basel Core Principles for Effective Banking Supervision
CBDC	Central Bank Digital Currency
CBI	Citizenship by Investment
CBRs	Correspondent Banking Relationships
CD	Capacity Development
CDMAP	Capacity Development Management and Administration Program
CFATF	Caribbean Financial Action Task Force
CSO	Civil Society Organizations
CTED	United Nations Counter-Terrorism Committee Executive Directorate
CSR	Comprehensive Surveillance Review
DNFBPs	Designated Non-Financial Businesses and Professions
ECF	Extended Credit Facility
EFF	Extended Fund Facility
FATF	Financial Action Task Force
FCS	Fragile and Conflict-Affected States
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSRB	FATF-Style Regional Body
FSSA	Financial System Stability Assessment
FTE	Full-Time Equivalent
GFSR	Global Financial Stability Reports
IFF	Illicit Financial Flows
IFI	International Financial Institutions
IROs	International and Regional Organizations
ISD	Integrated Surveillance Decision
LEA	Law Enforcement Agency
LIC	Low-income Countries
MCD	Middle East and Central Asia Department
MCM	Monetary and Capital Markets Department
ME	Mutual Evaluation
MENA	Middle East and North Africa
MER	Mutual Evaluation Report
ML	Money Laundering
NRA	National Risk Assessment
PF	Proliferation Financing
R.	Recommendation
RBM	Results-Based Management
RCF	Rapid Credit Facilities
REO	Regional Economic Outlook

RFI	Rapid Financing Instruments
ROSC	Report on the Observance of Standards and Codes
SERCOP	<i>Servicio Nacional de Contratación Pública</i>
STR	Suspicious Transaction Reports
TA	Technical Assistance
TF	Terrorist Financing
TFS	Targeted Financial Sanctions
TTF	Topical Trust Fund
UN	United Nations
UNOCT	United Nations Office on Counter Terrorism
UNODC	United Nations Office on Drugs and Crime
VAs	Virtual Assets
VASPs	Virtual Asset Service Providers
WHD	Western Hemisphere Department

## INTRODUCTION

**1. As financial crimes continue to threaten the integrity<sup>3</sup> and stability of Fund members' financial systems and the broader economy, with negative implications for inclusive and sustainable growth, the Fund maintains a key position to assess and advise on mitigating the macroeconomic and financial stability impact of those crimes by promoting effective AML/CFT frameworks.** Impacts on financial integrity from ML and related underlying crimes (predicate crimes/offenses),<sup>4</sup> TF,<sup>5</sup> as well as PF,<sup>6</sup> can threaten the stability of a country's financial system and broader economy with possible spillover effects that can undermine inclusive and sustainable economic growth. As income from criminal activities is generated, tax evasion affects the revenue of the state and becomes prevalent, public resources are misallocated from legitimate, productive sources due to corruption, and substantial disruptions may occur in the performance and stability of financial systems and in price formation, including in countries with low criminal activity. ML can result in destabilizing inflows and outflows of funds, as well as in banking crises, and can contribute to pressure on CBRs, property asset bubbles, and reputational risks for international financial centers.<sup>7</sup> In an increasingly interconnected world, the damage caused by these crimes is global. Robust risk-based policies and effective measures designed to prevent and deter these crimes are essential to protect the integrity and stability of financial markets, the global financial system, and the economies of Fund members.

**2. The international AML/CFT standards and broader financial integrity measures are important to the Fund's core functions.** The Fund's AML/CFT program has evolved considerably since its origins in the early 2000s. In recognition of their macroeconomic impact, AML/CFT and financial integrity issues are relevant in the context of wide range of Fund policies (e.g., Fintech/digital money, governance, fragile and conflict-affected states (FCS)) and continue to be

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<sup>3</sup> Financial integrity is a high-level goal of the international community. It is a broad concept, which covers measures to prevent and combat ML, its predicate offenses, TF, and PF, and illicit financial flows (IFF).

<sup>4</sup> ML is the process by which the illicit sources of assets obtained or generated by criminal activity are concealed to enable these assets to enter the financial system and broader economy. The ML offense should apply to all serious offenses, with a view to including the widest range of predicate offenses. At a minimum, it should apply to the 21 categories of offenses designated by the FATF, including, *inter alia*, participation in organized crime, fraud, drug trafficking, corruption and bribery, tax crimes, and environmental crimes.

<sup>5</sup> TF includes the raising and processing of funds to supply terrorists with resources. While ML and TF differ in many ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and opacity in the execution of financial transactions, as well as weaknesses in law enforcement frameworks that hinder effective investigation and prosecution.

<sup>6</sup> PF measures are related to United Nations Security Council Resolutions (UNSCRs) applying targeted financial sanctions (TFS) relating to the financing of proliferation of weapons of mass destruction, any future successor resolutions, and any future UNSCRs which impose TFS in the context of the financing of proliferation of weapons of mass destruction.

<sup>7</sup> Background Paper II further explains the impact of financial integrity failures on financial stability.

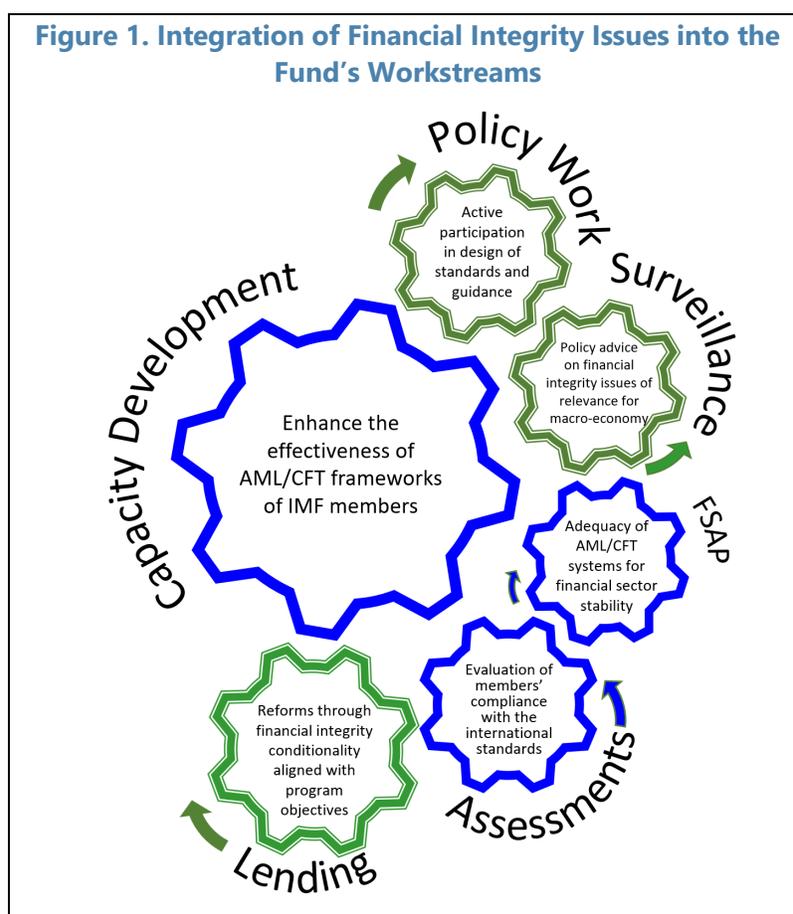
systematically covered across all of the Fund workstreams—surveillance, FSAPs, Fund-supported programs, policy work, AML/CFT assessments,<sup>8</sup> and CD.

**3. In its 2018 review of the Fund's AML/CFT strategy, the Executive Board endorsed the continued mainstreaming of the coverage of AML/CFT issues and the increased synergies between different workstreams.** Building on the 2012 review, the 2018 review reflected that the Fund's AML/CFT program remained appropriate and essential to the global efforts to safeguard financial integrity. Welcoming staff's significant contributions to the global response to ML/TF, the Board emphasized the need for evenhandedness in coverage of AML/CFT issues in surveillance and lending, as well as for ensuring the efficiency and agility of CD engagement. The Board endorsed staff's

participating in global policymaking fora and to conduct a one to two AML/CFT assessments per year, and increase participation in quality and consistency reviews, and in training. The Board further stressed the need, in the context of FSAPs, to minimize duplication in the coverage of AML/CFT issues through greater reliance on AML/CFT assessments reports,<sup>9</sup> while at the same time maintaining the expectation that all FSAPs would include key findings on AML/CFT (see Table 1. Progress since the 2018 Review—Key Takeaways from the 2018 Summing-Up).

**4. In line with the outcomes of the 2018 review, coverage of AML/CFT issues has been integrated in all core functions, resulting in a wider and deeper thematic scope since 2018.** Between 2018 and 2023, the coverage of financial integrity issues increased across all workstreams. This is partly due to the shift to assessing AML/CFT frameworks based on effectiveness with many

**Figure 1. Integration of Financial Integrity Issues into the Fund's Workstreams**



<sup>8</sup> Along with the FATF, FSRBs, and the World Bank, the Fund conducts assessments of countries' implementation and effectiveness of ML, TF, and PF measures against the FATF Standards. These Fund-led assessments constitute Reports on the Observance of Standards and Codes (ROSCs).

<sup>9</sup> Most of the FSAPs are expected to include key findings based on assessments—supplemented, if necessary, with more up-to-date information—as more assessments are available.

countries having significant deficiencies, some highly publicized financial integrity scandals<sup>10</sup> which contributed to greater public attention on the need to further safeguard financial integrity and the increase in financial integrity risks during the COVID crisis (e.g., corruption, fraud). During the height of the COVID-19 crisis, staff focused on financial integrity and governance safeguards in emergency financing and other lending programs, as Article IV (AIV) consultations were delayed or streamlined, and CD delivery was being adapted to a hybrid model. Since 2021, staff has resumed the regular implementation of the program through the coverage of AML/CFT issues across all workstreams (See Figure 1. Also see Annex 1. Synergies Across Workstreams to Enhance AML/CFT Effectiveness—Country Examples).

**5. Going forward, staff will continue to deepen the integration of AML/CFT and financial integrity issues in core functions through increased focus on assessing the negative macroeconomic impact of ML/TF and greater complementarity with other Fund policies.** Staff will determine the depth and scope of AML/CFT coverage in surveillance and lending based on the analysis of the nature and severity of ML/TF risks and draw closer on linkages between AML/CFT and macro-critical fiscal, financial sector, and structural issues. In parallel, staff will continue to implement the Fund's comprehensive CD program while responding to increased demand stemming from emerging issues (e.g., beneficial ownership, Fintech/digital money, synergies between AML and anti-corruption and tax frameworks) and will enhance the synergy of CD support with surveillance and lending programs. The Fund will also continue to contribute to global policymaking by bringing the macro-criticality of financial integrity issues to the attention of the FATF (the global standard setter in this area) while proposing solutions that benefit the economies of Fund members, by continuing to conduct AML/CFT assessments, as well as participating in assessments led by others, by reviewing draft reports for quality and consistency, training assessors and countries' authorities, and providing CD in coordination with other providers.

## FINANCIAL INTEGRITY RISKS AND COVERAGE OF AML/CFT IN FUND WORKSTREAMS

### A. Understanding the Nature and Severity of Financial Integrity Risks and Their Macroeconomic Impact

**6. Staff's understanding of the nature and severity of risks to financial integrity of member countries helps identify their potential impact on financial stability and broader macroeconomic performance.** This understanding (i) supports the extent of coverage of AML/CFT issues in surveillance, by helping the assessment of the potential impact of these issues on members' financial or balance of payments stability or the identification of issues that may cause spillover effects; (ii) guides the design of financial integrity-related conditionality in Fund-supported

<sup>10</sup> Such as the 2021 leaks of the so-called Pandora Papers which have raised issues around the possible misuse of corporate structures and the enhanced need for transparency of beneficial ownership information, and other high-profile financial sector scandals, e.g., the 2018 Danske Bank ML scandal which highlighted the misuse of the financial sector.

programs, by helping staff assess whether those issues are critical for achieving program goals or for monitoring program implementation, or necessary for the implementation of specific provisions of the Articles or policies; (iii) guides the scope and depth of coverage of AML/CFT issues in FSAPs to safeguard the soundness, integrity, and stability of the financial sector; (iv) informs staff's assessments (e.g., for the purposes of the scoping note) of assessment exercises;<sup>11</sup> and (v) guides CD engagements to focus on areas of greater financial integrity risks.

**7. Staff's understanding of the nature and severity of the risks to financial integrity is informed by the analysis of a wide range of quantitative and qualitative data.** This includes relevant data and information from reputable sources such as: (i) staff knowledge and information obtained under the different Fund workstreams;<sup>12</sup> (ii) published [AML/CFT mutual evaluation reports \(MERs\)](#) and follow-up reports produced by the FATF Network, [national risk assessments \(NRAs\) and thematic risk assessments conducted by member countries](#), and data collected as part of these processes, including data on predicate criminal activities; and (iii) data on cross-border financial flows, financial sector stability, interconnectedness indicators, and other relevant indicators, such as those generated by the Fund, the World Bank, United Nations (UN), and Organisation for Economic Co-operation and Development.

**8. Since 2018, staff has used existing and new quantitative and qualitative tools to deepen its understanding of the risks to financial integrity and their negative macroeconomic implications.** Staff analyzes unusual cross-border financial flows patterns to identify and assess ML/TF risks related to wire transfers and non-resident activity, using financial flows and other economic data, such as for trade and investments, and indicators on ML/TF risks. This analysis has enabled staff to focus on the countries where ML/TF issues warrant special attention in FSAPs and AIV consultations (See Background Paper I on IFF for further detail).

### Box 1. The Macroeconomic Impact of ML/TF and IFF

**While ML and TF share common attributes and exploit the same vulnerabilities in financial systems, they are distinct concepts and present different risks.** ML involves the "cleaning" of illegal assets (i.e., proceeds of crime). TF, on the other hand, can involve the raising and processing of both legitimate and illegal funds to conduct a terrorist activity.

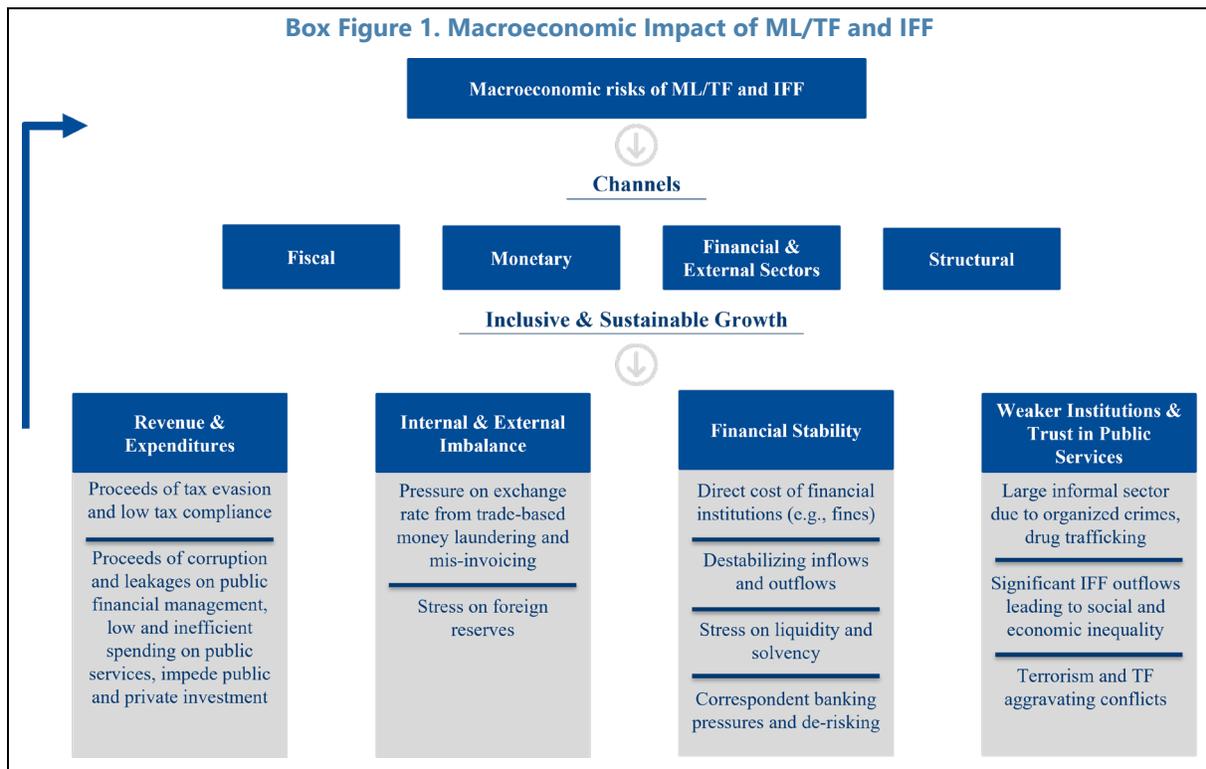
**ML and TF should therefore be assessed separately.** The concept of ML or TF "risk" is assessed as the product of the threats (e.g., possible actions of criminals with money to launder and terrorism financiers); the vulnerabilities (e.g., weaknesses in the financial system and broader economy that can be exploited); and the consequence or the harm caused (e.g., actual or potential damage from ML or TF); and their macroeconomic impact (e.g., fiscal, financial, structural channels).

<sup>11</sup> See Section II.E. on the AML/CFT Assessments.

<sup>12</sup> See Annex 1. Synergies Across Workstreams to Enhance AML/CFT Effectiveness—Country Examples.

### Box 1. The Macroeconomic Impact of ML/TF and IFF (continued)

- **ML and TF threats differ.** ML threats stem from the proceeds of all forms of domestic criminal activity as well as cross-border illicit funds that are laundered in or through that jurisdiction. On the other hand, TF threats denote the scale of funds and other assets raised for use by terrorists that are in need of processing in a given jurisdiction. TF threats thus only overlap with ML threats when the funds/assets raised or processed for terrorism arise from criminal activity.
- **Some features of the financial system or the economy may present elevated levels of anonymity, secrecy, and opacity in the execution of transactions.** However, ML and TF have some differences in vulnerability indicators. For instance, a large client profile of politically exposed persons for financial institutions can be a vulnerability indicator for ML (laundering of proceeds of corruption). On the other hand, exposure of financial institutions to customers from jurisdictions with high-risk of terrorism is a vulnerability indicator for TF.



- **ML and TF also differ in consequences.** ML can threaten a jurisdiction's financial stability, inclusive and sustainable growth, and economic prosperity, through destabilizing inflows and outflows and possible obstruction of access to global financial markets and foreign direct investments. When involving large sums, ML can have macro-critical impacts for jurisdictions where they originate, transit, and are integrated. In countries of origin, laundering of proceeds of crime can lead to significant illicit financial outflows, impeding domestic revenue mobilization and public and private investments. ML can impact transit countries through the destabilizing effects of hot money resulting from IFF, which may cause macro-critical bank liquidity and solvency issues. Large-scale laundered proceeds are often integrated in international financial centers where they can result in economic capture and distortions, asset price bubbles, and reputational risks, with global spillovers. TF supports terrorist attacks (whether or not in the same jurisdiction) and results in human, social, economic (e.g., financial markets, tourism), and political costs. In the main, TF is often macro-relevant for FCS or states where terrorist groups derive income from their control over natural resources.

### Box 1. The Macroeconomic Impact of ML/TF and IFF (concluded)

- **ML's dynamics across jurisdictions:** As discussed in the Background Paper I on IFF, ML can impact economies in different ways dependent on whether the proceeds of crime are laundered domestically or moved abroad, transiting through, or integrated in the economy as a final destination. Low-income countries (LIC) and FCS typically experience illicit outflows of proceeds from crimes including corruption and organized crime (with resource-rich low-income and FCS countries most heavily impacted) while international financial centers attract illicit inflows. The ability to identify and mitigate TF-related IFF is less well developed than it is for ML-related IFF, as they are often conducted through informal channels with lower transaction values. In contrast, ML-related IFF often utilize formal channels and have higher transaction values, enabling the utilization of data analytics in the detection and mitigation of these flows.

**9. The multipronged approach and synergies across various Fund workstreams support individual member countries' efforts in enhancing the effectiveness of their AML/CFT frameworks and limiting the impact of financial crimes on the economy.** Building robust and effective AML/CFT systems is a complex task that requires sustained efforts and resources customized to a country's risk profile. Staff is constantly assessing the impact of different engagements and leveraging the synergies between surveillance, lending, FSAPs, assessments, and CD to identify countries' risks, and tailor reform priorities and capacity building support, based on domestic conditions and capabilities. The multipronged approach and virtuous feedback loop enable greater support to the membership, facilitate internal coordination, and increase efficiency and impact in the Fund's contributions towards the global AML/CFT agenda (see Annex I).

### Box 2. Safeguarding Financial Integrity of Digital Finance

Staff's work on financial integrity implications of Fintech—especially digital money including virtual assets (VAs) and central bank digital currencies (CBDCs)—has significantly increased across workstreams.

- Staff's work on financial integrity has contributed to the Funds' policy papers on digital money, notably the **milestone paper on Elements of Effective Policies for Crypto Assets**. To help countries implement the new FATF Standards on VAs<sup>1</sup> and virtual asset service providers (VASPs), staff has published **two Fintech Notes** on VAs and AML/CFT.<sup>2</sup> Staff has also deepened its analysis of the financial integrity implications of CBDCs in support of members in their consideration of these issues.
- In **surveillance**, staff has advised members on understanding and mitigating the risks arising from VAs—including against granting legal tender status to VAs (e.g., El Salvador)—and CBDCs (e.g., China, Bahamas).
- Staff provided timely analysis of the AML/CFT regulatory frameworks for VAs and VASPs in **FSAP** to help members tackle the risks stemming from growing VAs activities (e.g., Singapore, France).
- In the context of **use of Fund resources**, staff's analysis contributed to the Fund's advice to the Central African Republic under its Extended Credit Facility (ECF) program to repeal the legal provisions that provided VAs legal tender status.
- In response to the increasingly high demand for assistance on AML/CFT issues in relation to Fintech, staff provided **CD** on VAs/VASPs and CBDCs (see Box 6 for details).

<sup>1</sup> The FATF defines a VAs as a digital representation of value that can be digitally traded, or transferred, and can be used for payment or investment purposes. VAs do not include digital representations of fiat currencies, securities, and other financial assets that are already covered elsewhere in the FATF Recommendations.

### Box 2. Safeguarding Financial Integrity of Digital Finance (concluded)

<sup>2</sup> Schwarz, Nadine et al., 2021, "Virtual Assets and Anti-Money Laundering and Combating the Financing of Terrorism (1): Some Legal and Practical Considerations", FinTech Notes No 2021/002, International Monetary Fund, Washington, DC, and Schwarz, Nadine et al., 2021, Virtual Assets and Anti-Money Laundering and Combating the Financing of Terrorism (2), "Effective Anti-Money Laundering and Combating the Financing of Terrorism Regulatory and Supervisory Framework—Some Legal and Practical Considerations", FinTech Notes No 2021/003, International Monetary Fund, Washington, DC.

## B. Fund Surveillance

**10. In line with the Fund policy on surveillance, financial integrity issues are covered on a mandatory basis when considered macro-critical, and on a voluntary basis when requested by the member country.** As set out in the 2012 Integrated Surveillance Decision (ISD), financial integrity issues are covered on a mandatory basis in AIV consultations, when these issues are considered to significantly influence present or prospective balance of payments and domestic stability or the spillovers arising from these issues which may significantly influence effective operation of the international monetary system (i.e., "the macro-criticality standard" for surveillance). This assessment is made on a case-by-case basis and reflects the specific country's circumstances, including its risk and context. Such tailored coverage is carried out in an even-handed manner, i.e., by affording similar treatment to members in similar relevant circumstances.<sup>13</sup> In some cases, these issues can also be discussed on a voluntary basis and included in the member's AIV staff report at the request of the relevant authorities. In such cases, this advice constitutes technical assistance (TA) by staff notwithstanding its inclusion in the AIV staff report.<sup>14</sup>

**11. The Executive Board endorsed in 2011 the mandatory coverage of AML/CFT and financial integrity issues, when appropriate, in surveillance.** Considering the effects that ML, its underlying crimes, TF and PF, and broader financial integrity issues can have on the performance and stability of countries' financial systems or their broader economy, the Fund has endeavored to cover these issues since 2001. In 2011, the Executive Board endorsed the mandatory coverage of financial integrity issues in surveillance, when deemed appropriate and in line with the broader legal framework for Fund surveillance.<sup>15</sup> A 2012 Staff Guidance Note<sup>16</sup> on the inclusion of AML/CFT in surveillance and financial stability assessments presented further context, by providing guiding questions and criteria to assist staff in making the determination as to when such issues could be

<sup>13</sup> ISD, para 14. See also the 2022 Guidance Note for Surveillance under AIV Consultations.

<sup>14</sup> The Fund's policy advice on these issues would be TA under Article V, Section 2(b) and not surveillance, but can be included in the members' AIV consultation report. For example, see how the transnational aspects of corruption are covered as part of voluntary assessments in the context of AIV consultations in the Fund's 2018 Enhanced Framework on Governance or see the 2021 Comprehensive Surveillance Reviews—Background Note for Integrating Climate Change into AIV Consultations.

<sup>15</sup> IMF Board Discusses the IMF's Intensified Involvement in AML/CFT, PIN No. 01/120, November 16, 2001; IMF Executive Board Reviews Efforts in AML/CFT, PIN No. 11/74, June 27, 2011.

<sup>16</sup> See [AML/CFT—Inclusion in Surveillance and Financial Stability Assessments—Guidance Note: IMF Policy Paper: December 14, 2012.](#)

covered.<sup>17</sup> During the 2018 review of the Fund's AML/CFT strategy, Directors reiterated their support of staff's ongoing efforts to integrate financial integrity issues into surveillance, where appropriate.<sup>18</sup>

**12. Where financial integrity issues are considered relevant to other Fund policy areas (e.g., governance), these are also discussed in surveillance as part of such policy discussions in AIV consultations.** Under the Fund's Framework for Enhanced Engagement on Governance adopted by the Executive Board in 2018 (the "2018 Governance Framework"),<sup>19</sup> AML/CFT is one of the six state functions identified as most relevant for economic activity that should be assessed for corruption and governance vulnerabilities on a mandatory basis, whenever macro-criticality can be established. In these cases, some elements of the AML framework to tackle proceeds of corruption, such as international cooperation, asset recovery, and preventive measures (e.g., politically exposed persons) requirements, are prioritized to support the fight against corruption. In addition, under this policy, members can agree to a voluntary assessment of their AML efforts to prevent transnational corruption (or foreign proceeds of corruption)—regardless of their domestic incidence on corruption. "Facilitation" issues—or the use of the AML system to tackle foreign proceeds of corruption—are covered in a number of volunteer countries.<sup>20</sup> Finally, corruption could also undermine the effectiveness of the AML/CFT framework (e.g., collusion or lack of capacity or governance weaknesses in relevant authorities) and staff will continue deepening the coverage of those structural issues.

**13. The coverage of financial integrity issues in AIV consultations and FSAPs is complementary and can reinforce staff's advice on key financial integrity issues related to the financial sector.** In 2010, the Executive Board made the FSAP's financial sector stability assessments a mandatory part of surveillance under AIV for jurisdictions with systemically important financial sectors.<sup>21</sup> FSAPs offer a more in-depth focus on financial sector issues and can inform the analysis of financial sector issues in AIV consultations, especially in the case of mandatory FSAPs (see below under the FSAP section). Subsequent AIV consultations can follow up on relevant FSAP recommendations. At the same time, staff's AML/CFT input related to the financial sector is one of the key sources of information for the FSAP. The increased number of countries that need to undergo mandatory FSAPs resulted in an enhanced coverage of financial integrity issues for systemically important financial sectors (see more below the discussion related to FSAPs).

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<sup>17</sup> These questions and criteria help staff assess (i) the impact of financial integrity issues on the stability of a country's financial system or its broader economy; (ii) the threats to financial sector stability arising from predicate crimes; (iii) the adverse effect of financial integrity issues on the stability of the broader economy; and (iv) their adverse spillover effects and the impact on global stability.

<sup>18</sup> Summing-up for the [2018](#) review of the Fund's AML/CFT strategy.

<sup>19</sup> 2018 Framework for Enhanced Fund Engagement on Governance; 2023 Review of the Implementation of the Framework for Enhanced Engagement on Governance.

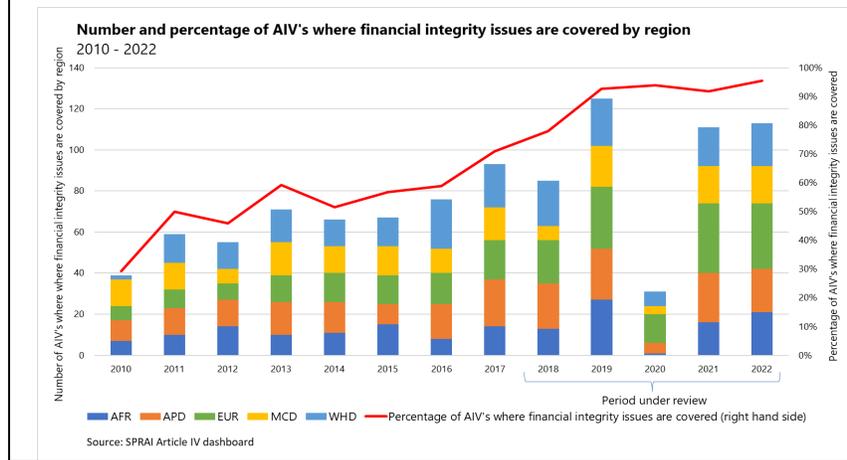
<sup>20</sup> See IMF, 2023. [Review of Implementation of The 2018 Framework for Enhanced Fund Engagement on Governance, IMF Policy Paper No. 2023/015 \(Washington\)](#). As of September 2023, Austria, Canada, France, Germany, Italy, Japan, Czech Republic, Saudi Arabia, Switzerland, the Netherlands, Norway, the United Kingdom, and the United States.

<sup>21</sup> See [IMF, 2010, Integrating Stability Assessments Under the Financial Sector Assessment program into AIV Surveillance, Decision No. 14736-\(10/92\)](#) (Washington).

**14. Overall, there has been a notable increase in the coverage of financial integrity issues in surveillance since 2018.**

During the period under review, the coverage of financial integrity issues increased from 60-70 percent of all AIV staff reports before 2018 to over 90 percent since that year (see Figure 2). This is particularly clear in 2019, 2021, and 2022 noting that the drop in 2020 is due to the streamlining in AIV

**Figure 2. Number and Percentage of AIV where Financial Integrity Issues are Covered by Region (2010–2022)**



consultation cycles during the COVID-19 crisis that led to much fewer AIV consultations that year, although percentage of coverage remained high. The high level of coverage is reflected in the regional breakdown as well. For example, in 2022, there was full coverage of financial integrity issues in all African (AFR), Middle East and Central Asia (MCD), Western Hemisphere Department (WHD) AIV staff reports and 95 percent and 94 percent coverage in the European and Asia-Pacific Department (APD) respectively. At the same time, the scope and depth of coverage of financial integrity issues in AIV staff reports varies depending on the nature and severity of these issues and their impact on members' balance of payments and domestic stability (see Box 3).

**15. The coverage of AML/CFT issues in staff reports reflects the growing relevance of financial integrity issues for member countries and recognition of their potential macroeconomic impact.** Since 2018, some notable global developments and scandals have raised the profile of financial integrity issues across the Fund membership and highlighted the macro-criticality of these issues (see Section I and Background Papers I and II). In addition, since 2016, several countries have also been facing pressures on CBRs, potentially compounded by gaps in their AML/CFT frameworks (notably, global financial institutions have often reported perceptions of ML/TF risks and perceived weaknesses in AML frameworks as one of the reasons for restricting or terminating CBRs). Under the ongoing round of AML/CFT assessments of countries' compliance with the FATF Standards, which has focused on effective implementation, an increasing number of Fund members have also been publicly identified by the FATF as having strategic AML/CFT deficiencies (the so-called FATF grey list). Where these issues were macro-critical staff raised them with members in the context of surveillance and provided targeted policy advice to exit the grey list. Furthermore, the voluntary coverage of "facilitation" of transnational corruption under the 2018 Governance Framework has resulted in the discussion of AML to tackle foreign proceeds of corruption in many advanced economies.

## 16. Emerging financial integrity issues have also gained increased importance in AIV consultations.

More traditional issues that are covered include areas related to understanding of risks, AML/CFT risk-based supervision of financial institutions and non-financial sectors (e.g., lawyers, accountants, trust and company service providers), and the need to strengthen the AML/CFT legal and institutional frameworks.

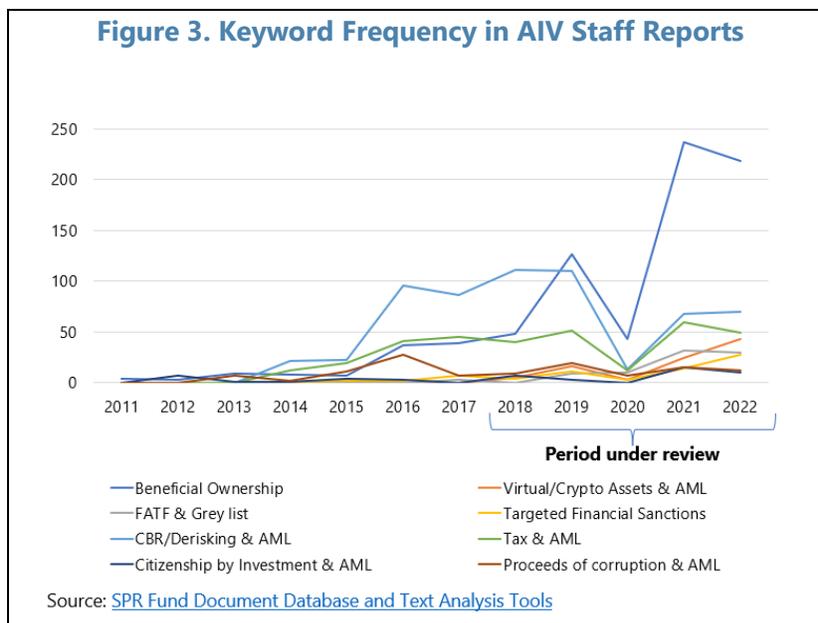


Figure 3 illustrates the uptake in frequency of coverage of some emerging issues since 2018. These issues include beneficial ownership, crypto assets, and citizenship by investment (CBI). Issues on beneficial ownership of legal entities were covered significantly in the period under review, including as follow-up in surveillance on country commitments made in the context of the Fund's emergency lending to publish beneficial ownership information of companies awarded procurement contracts. Staff also increased the discussion with countries on VAs and VASPs advising them to closely monitor the ML/TF risks posed by crypto assets, in line with the new FATF Standards. There has also been increased attention to how AML/CFT measures can be used to tackle crimes such as proceeds of corruption<sup>22</sup> and tax evasion,<sup>23</sup> including in the post pandemic recovery period when countries need to rebuild fiscal reserves. Initiatives by countries such as CBI programs to attract foreign direct investment have also come under scrutiny to ensure that risks to financial integrity are closely managed.<sup>24</sup>

## 17. In addition, staff has engaged in more direct and comprehensive discussions on financial integrity issues with country authorities due to changing modalities of engagement.

Prior to the pandemic, staff provided support to country teams, usually through background notes and questionnaires used during AIV onsite discussions, occasionally accompanying the team onsite. Following the pandemic, the hybrid modality of engagement with country authorities has afforded flexibility for staff to participate in financial integrity discussions directly with the authorities more regularly, particularly through virtual modalities, incidentally, supporting savings in travel expenses. While this has increased work pressures on staff, it has resulted in more targeted and in-depth

<sup>22</sup> AML to tackle domestic proceeds of corruption is also covered in governance diagnostic reports, and often related policies issues are highlighted in AIV consultations.

<sup>23</sup> See: <https://www.imf.org/en/Publications/WP/Issues/2023/04/21/Leveraging-Anti-money-Laundering-Measures-to-Improve-Tax-Compliance-and-Help-Mobilize-532652>

<sup>24</sup> See: <https://www.imf.org/external/pubs/ft/fandd/2021/06/citizenship-for-sale-fernando-pampolina-sykes.htm>

discussions on financial integrity issues, enhanced staff's support to country teams, and provided opportunities for more engagement with authorities (see also Background Paper V.B).

**18. Staff also highlighted financial integrity risks in relevant multilateral surveillance and other outreach products.** In the period under review, issues covered by the Regional Economic Outlook (REO) and Global Financial Stability Reports (GFSR) have also noted risks to financial integrity related to crypto assets and emerging digital technologies (e.g., 2018 GFSR, 2018 APD REO, 2020 Financial System Stability Assessment (FSSA) REO), the loss of CBRs in certain regions (e.g., 2019 MCD REO, 2018 WHD REO), the use of AML to deter corruption (Fiscal Monitor, April 2019), and the need to bolster AML/CFT frameworks to improve governance (2019 FSSA REO).

**19. Policy advice provided through surveillance has helped identify and address important financial integrity issues in member countries across all regions.** Staff's engagement with country authorities has helped raise the profile of key financial integrity issues and highlighted their macro-critical elements when relevant. Staff's advice is in line with the relevant countries' risk profile, capacity, and resource constraints, with special attention to LIC and FCS. As a result, staff is better placed to provide direct, concrete, and actionable advice to authorities for developing and prioritizing AML/CFT policies. Consultations with area departments broadly indicate that AML/CFT issues have been appropriately covered in AIV consultations, with scope to continue to further deepen analysis of AML/CFT issues with closer linkages to other macroeconomic priorities (Background Paper V.B).

**20. The frequency of engagement in the context of the AIV consultation cycle has helped maintain the momentum of staff's policy advice.** Staff has been able to raise financial integrity policy issues in a more consistent manner in the context of the yearly or biennial AIV consultations—especially when compared to AML/CFT assessments that are undertaken on an eight to 10-year cycle under the current FATF Global Network assessment cycle. Staff has also followed-up on this advice as appropriate in subsequent AIV consultations. Box 3 below provides select examples of countries where financial integrity issues have been discussed in the context of surveillance.

### Box 3. Examples of Coverage of Selected Financial Integrity Issues in Fund Surveillance

*The table aims to showcase a range of financial integrity input in AIV staff reports, complementarity with other workstreams, and examples of how staff has followed up on key issues across consultation cycles.*

Topic	Country Examples	Coverage
<b>ML Risk Mitigation</b>	Lithuania AIV (2022)	A dedicated selected issues paper that focused on the need to reinforce ML risk mitigation, including with respect to: (i) increasing cross-border ML/TF threats (also arising from a growing Fintech/digital money sector); (ii) enhancing the national understanding of non-resident ML/TF risks; (iii) strengthening implementation of the risk-based approach to AML/CFT supervision, including the regulation and supervision of VASPs; and (iv) tightening of AML/CFT controls necessary for a retail payment system operated by the Bank of Lithuania. As a result, authorities made efforts to adjust their risk-based tools to focus further on cross-border risks.
<b>FATF grey listing</b>	Malta AIV (2020; 2021; 2022)	Comprehensive coverage of deficiencies identified in Malta's AML/CFT framework. When Malta was put on the FATF grey list in June 2021, the AIV Staff Report, published in August 2021, focused on the need to enhance the effectiveness of the AML/CFT framework, monitor correspondent banking pressures, and address financial integrity and reputational risks posed by high-risk sectors. In 2022, staff highlighted Malta's exit from the grey list, including Malta's progress in strengthening its AML/CFT regime. Staff's targeted discussions with the authorities on these issues helped support the authorities' efforts to address AML/CFT deficiencies in a timely manner.
<b>Impact of financial integrity failures on financial stability</b>	Iceland AIV (2019)	Staff highlighted the need to improve the effectiveness of AML/CFT frameworks to mitigate potential pressures in financial markets or payments.
<b>Fintech/digital money</b>	Bahamas AIV (2019 to 2022)	Staff closely followed the Bahamas' emerging digital money environment, including the issuance of a CBDC (Project Sand Dollar). Staff's advice in this area focused on the need to establish and implement a robust framework to regulate and AML/CFT compliance of the crypto assets sector.

<b>Box 3. Examples of Coverage of Selected Financial Integrity Issues in Fund Surveillance (concluded)</b>		
<b>Beneficial ownership</b>	United States AIV (2019; 2021; 2022)	The 2019 staff report highlighted the need for authorities to address serious weaknesses identified in entity transparency, including to ensure the availability of beneficial ownership information. Staff followed up on this issue in 2021 and 2022, including to report on the introduction of a government-maintained national register of beneficial owners for certain U.S. companies. Staff's attention to these issues in the AIV staff reports helped to highlight the importance of entity transparency created in the United States.
<b>TFS</b>	Somalia AIV (2019; 2022)	AIV staff reports (and related program reviews) focused on the need to improve the legal and regulatory framework for TFS to properly implement the UN Security Resolutions related to terrorism and terrorism financing, noting that submission of a draft Act and accompanying regulations were also structural benchmarks under the program to address TF risks and CBRs pressures.
<b>CBI</b>	Vanuatu AIV (2021; 2023)	The 2023 staff report continued to follow up on financial integrity issues that have arisen in relation to Vanuatu's CBI program, which have also resulted in continuing CBRs pressures. This follows coverage of these issues in the 2021 staff report, where staff emphasized the urgent need to mitigate risks to financial integrity and reduce the growing reliance on revenues from the scheme.
<b>AML to tackle domestic proceeds of corruption</b>	Kenya AIV (2021)	The 2021 AIV staff report (and related program review) highlighted key measures to combating proceeds of corruption, including through bolstering the use of financial intelligence and implementation of AML/CFT risk-based supervision to ensure effective implementation of preventive measures by banks to mitigate the risk that proceeds of corruption would pose to the banking system.
<b>AML to deter tax crimes</b>	Portugal AIV (2022)	The staff report noted that efficiencies could be gained by leveraging the AML framework to enhance tax compliance and better tackle tax crimes.

**21. Staff has maintained an evenhanded approach when raising financial integrity issues across income groups and regions.** Financial integrity risks can have different macroeconomic impact, and the development of AML/CFT frameworks vary, across low, middle, and advanced economies. For instance, FCS often suffer from the impacts of TF, proceeds of corruption, and have

underdeveloped AML/CFT frameworks with impacts on fiscal and structural reforms (2023 Mali AIV, 2022 Niger AIV). LICs and developing economies often face the impact of illicit outflows related to proceeds of corruption and tax evasion with weak AML/CFT frameworks posing risks to the financial and fiscal sectors (2022 Moldova AIV, 2022 Madagascar AIV). Emerging economies often experience the impact of IFF transiting or integrated in their economies, and, while their AML/CFT safeguards tend to be more developed, their systems are not effective enough to mitigate risks (2022 Mexico AIV, 2021–2022 Philippines AIV). Finally, advanced economies are confronted with the impact of attracting illicit proceeds produced domestically or abroad and, while their AML/CFT frameworks are more effective, they face risks that proceeds of crime are being laundered through their financial and real estate sectors, including by misuse of corporate structures and the active role of professional enablers such as lawyers, accountants, and real estate agents (2023 Canada AIV, 2018 United Kingdom AIV). While the macroeconomic impact in advanced economies could be limited to some sectors (e.g., real estate bubble) or managed (e.g., banks scandals), the voluntary coverage of AML/CFT issues in those economies' staff reports highlight the need for global solutions to mitigate spillovers and reputational risks.

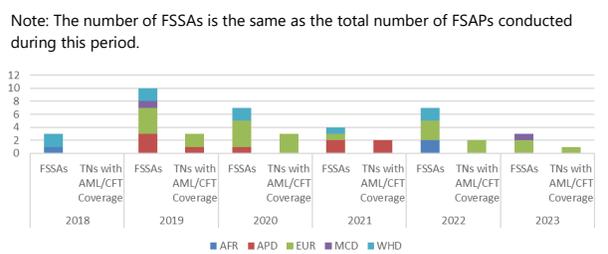
### C. FSAP

**22. Since the last review, staff has continued to cover AML/CFT issues in every FSAP, focusing on issues relevant for financial integrity and stability while avoiding unnecessary overlap between FSAP and comprehensive AML/CFT assessments.<sup>25</sup>**

Current Fund policy requires timely and accurate input of AML/CFT information into every FSAP, in line with the guidance provided by the Executive Board in April 2014. This input

is mandatory yet flexible in its scope: it should, where possible, be based on a sufficiently recent comprehensive quality AML/CFT assessment against the prevailing FATF Standards. In cases where such an assessment is not available, staff may derive key findings based on other relevant sources of information. All 34 FSSA reports published between November 2018 and May 2023 incorporate key findings on selected relevant AML/CFT issues. Among the FSAPs conducted jointly by the Fund and

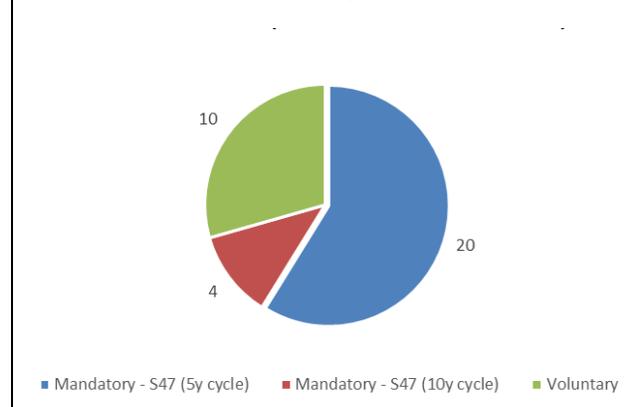
**Figure 4. FSSAs and Technical Notes (TN) with AML/CFT Coverage (November 2018–May 2023)**



<sup>25</sup> Comprehensive AML/CFT assessments and FSAP AML/CFT updates differ in scope, modalities, and output. AML/CFT assessments include a comprehensive review of the country's AML/CFT framework. In contrast, FSAP AML/CFT updates take the form of targeted reviews focused on the financial sector and its stability and can be as brief as a single section in a FSSA. They are prepared by IMF and World Bank staff and result in key findings and recommendations (but not ratings).

the World Bank, a few have benefited from World Bank staff's contribution related to AML/CFT. Pursuant to the 2021 review, these include 47 members with mandatory FSSAs, the so-called "S47" (see Figure 5).<sup>26</sup> The analysis of AML/CFT issues in FSAPs also contributed to assessments against the Basel Core Principles for Effective Banking Supervision (BCP), particularly with respect to the relevant principle on the abuse of financial services (BCP 29). As mentioned above, staff continued to ensure synergy between FSAPs and surveillance, including following up on FSAP recommendations on AML/CFT in the context of surveillance.

**Figure 5. Jurisdictions Covered: Mandatory and Voluntary FSSAs (November 2018–May 2023)**

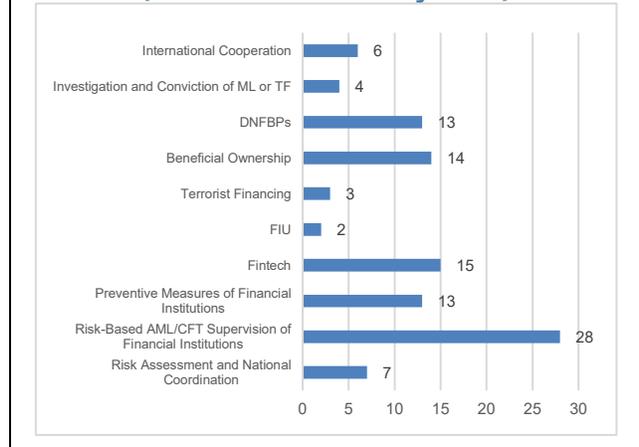


**23. The scope and depth of the discussion of AML/CFT issues in FSAPs have been tailored to members' circumstances.** The selection of issues and the depth of analysis depend on the availability of a relatively up-to-date and quality assessment against the prevailing standard as well as the financial integrity risks of a member and their implications for financial stability.<sup>27</sup> In instances where a recent assessment was available, staff limited its input to a reflection of the assessment's key findings in the FSSA. In other instances, such as an outdated comprehensive assessment, the key findings in the FSSA were derived from or complemented by a deeper analysis of selected issues and were reflected in FSSAs or technical notes.<sup>28</sup> In a few cases (e.g., the United Kingdom, Ireland), financial flow analysis informed the prioritization of cross-border issues based on the member's risk profile.

**24. The range of AML/CFT coverage remains broad with a focus on issues with implications for the soundness and stability of the financial sector (see Figure 6).**

AML/CFT risk-based supervision and

**Figure 6. AML/CFT Issues Covered in FSAPs (November 2018–May 2023)**



<sup>26</sup> There is one member among the 24 that was not subject to mandatory FSSA prior to the 2021 FSAP review and underwent an FSAP before becoming subject to mandatory FSSA after the review.

<sup>27</sup> See Background Paper V.A and V.B for survey results from the Monetary and Capital Markets Department (MCM) and the country authorities. The majority of responders agreed that AML/CFT discussions during FSAPs were relevant to the countries' ML/TF risks and the broader context of their financial sector.

<sup>28</sup> Including technical notes exclusively focused on AML/CFT or on broader topics with substantive analysis on AML/CFT issues.

preventive measures of financial institutions (such as customer due diligence, reporting of suspicious transactions, etc.) continued to be covered in most FSAPs. The greater coverage of Fintech/digital money-related issues, particularly the legal and regulatory framework for VAs and VASPs, coincides with the amendments to the FATF Standards related to VAs/VASPs, as well as the exponential growth in the digitalization of finance since the last review, and its important implications for financial integrity. The coverage of beneficial ownership and associated coverage of professional enablers to the financial system (such as lawyers and company and trust service providers), both categorized as designated non-financial businesses and professions (DNFBPs) reflects the relative lack of process globally on the issue of entity transparency.

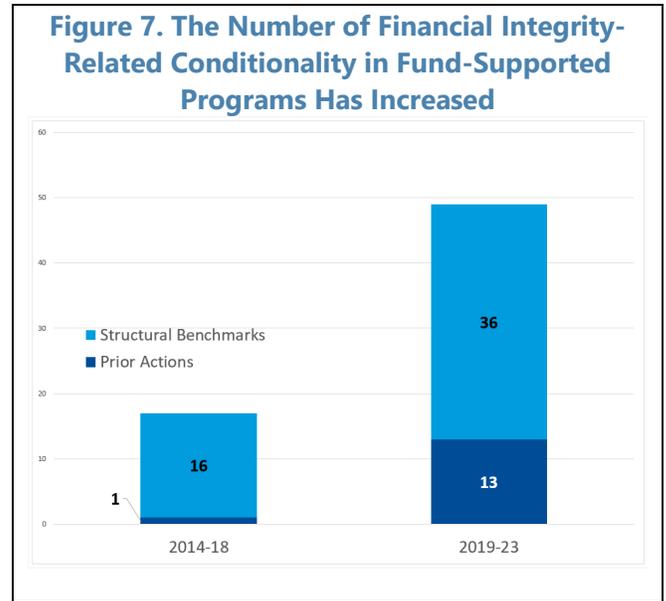
#### **D. Fund-Supported Programs**

**25. Financial integrity-related issues continue to be addressed in Fund-supported programs in line with the 2018 review.** As described above and in line with the AML/CFT Guidance Note (2012), deficiencies in a country's AML/CFT regime can have important implications for macroeconomic and financial stability. Consistent with the Guidelines on Conditionality,<sup>29</sup> staff integrates AML/CFT conditionality in Fund-supported programs when these are critical to achieving program goals, monitoring implementation, or are necessary to the implementation of specific provisions under the Articles of Agreement or underlying policies. These program goals can include facilitating a member's access to the international financial system (i.e., CBRs), improving revenue collection by mitigating tax crimes, protecting the integrity of the domestic or global financial system against abuse, fostering transparency, integrity, and good governance (e.g., public procurement), and leveraging the use of the AML system to tackle corruption. Structural reform measures in Fund-supported programs are guided by the key principles on designing conditionality, and are aimed at preventing and combating ML, underlying crimes, and TF. These include the tools within the international AML/CFT standards and beyond, when appropriate, to achieve effective outcomes.

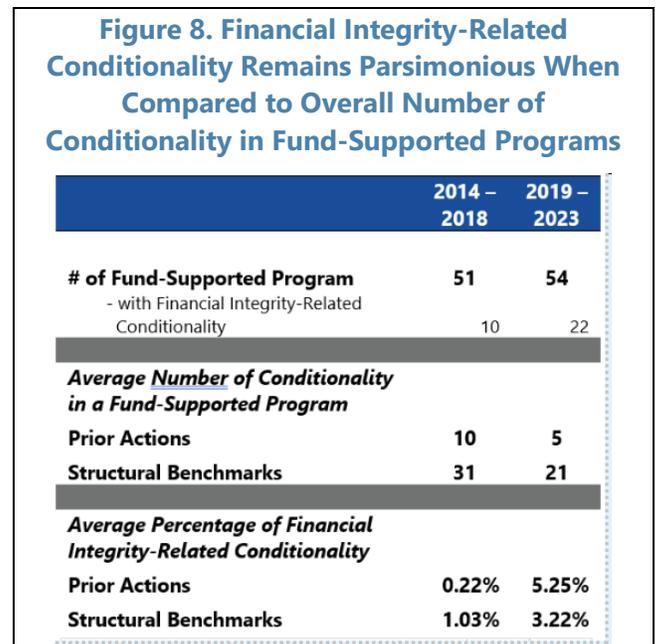
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<sup>29</sup> IMF, Guidelines on Conditionality (2002), Revised Operational Guidance (2014), and Review of Program Design and Conditionality (2018).

**26. Since the 2018 review, there has been an increase in the number of financial integrity-related conditionality in Fund-supported programs.** From 2019 to 2023 (as of August 2023), 49 financial integrity-related conditions were included in 22 Fund-supported programs<sup>30</sup> (13 prior actions and 36 structural benchmarks/ reform targets), which is a three-fold increase from the period of 2014 to 2018 (Figure 7). The increase demonstrates the growing criticality to program objectives of relevant AML/CFT reforms, specifically aligning the AML/CFT framework with the international standards, addressing AML/CFT shortcomings to implement the country’s action plan with the FATF, and adopting a risk-based approach to AML/CFT supervision of the financial sector.



**27. During the COVID-19 pandemic, conditionality on beneficial ownership and procurement transparency was significantly integrated in Fund emergency financing, in response to the Fund’s call for “keeping the receipts.”** Parsimony was maintained, as the average number of financial-integrity related conditionality remains less than 6 percent of total conditionality in Fund-supported programs for both periods of 2014–2018 and 2019–2023 (Figure 8). Notably, conditionality or commitments related to procurement transparency and beneficial ownership information appears to have had a significant positive impact during the pandemic and was implemented by most countries, especially with staff’s assistance (Figure 9). Consistent with the guiding principle of ownership and tailoring of conditionality, the types of measures vary depending on the country’s risk and context (Box 4). There are also several Fund-supported programs, where policy commitments related to financial integrity were incorporated (although no related conditionality was integrated).



<sup>30</sup> These include Fund-supported programs financed under the General Resources Account (Extended Fund Facility (EFF), Stand-by Arrangement) and the Poverty Reduction and Growth Trust (ECF, Stand-by Credit Facility). See also paragraph 27 on precautionary instruments and paragraph 28 on emergency financing.

**Box 4. Examples of Financial Integrity-Related Measures in Fund-Supported Programs**

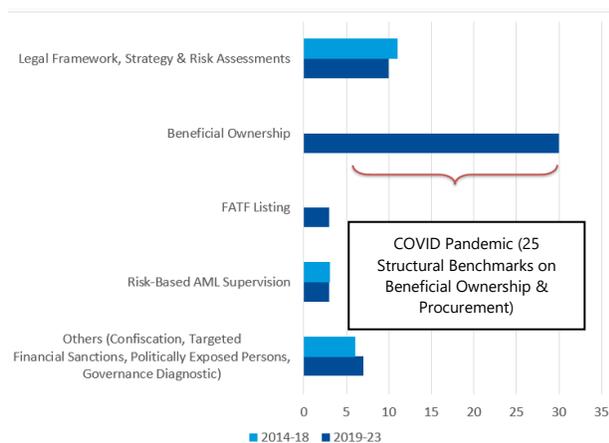
**Pakistan:** When the Fund-supported program was approved in June 2019, Pakistan had been included in the FATF grey list for over a year with little progress in addressing its 27-item action plan agreed with the FATF. In October 2019, Pakistan had only addressed five of the 27 items and was in danger of further action by the FATF. Since the listing could put stronger pressure on CBRs and lower investments, structural benchmarks in the December 2019 review were introduced to strengthen the effectiveness of the AML/CFT framework. In February 2020, Pakistan made substantial progress in addressing 14 of the 27 items in its action plan. The progress, supported by Fund conditionality, prevented Pakistan from being subject to further action by the FATF and eventually allowed the country to successfully exit the list in October 2022.

**Ecuador:** To enhance public procurement transparency, as contemplated by staff in the fourth and fifth reviews under the extended arrangement under the EFF, the *Servicio Nacional de Contratación Pública* (SERCOP) made legal ownership and beneficial ownership information of all procurement contracts awarded since September 2020 directly and freely accessible to the public in the procurement website (*prior action*). The authorities' decision to publish all emergency procurement as open data contributed to identifying urgent needs during the pandemic, planning effective delivery, and detecting fraudulent deals. SERCOP noted that the "democratizing of public procurement" increased public oversight through civil society monitoring and delivered results for suppliers and citizens.

**Benin:** In the 2021 AML/CFT assessment report under the FATF methodology, Benin was assessed as having significant deficiencies in the effectiveness of its AML/CFT framework. The Council of Ministers adopted an action plan to correct the identified deficiencies (an end-June 2022 structural benchmark under the Fund-supported program). Since the real estate sector is at risk of laundering of proceeds of corruption, actions are also underway to strengthen risk-based AML/CFT supervision of that sector and other designated non-financial sectors (including an end-November 2023 policy commitment for establishing a legal framework for beneficial ownership information of land title transferees).

**28. Discussions of critical financial integrity issues have been incorporated in precautionary instruments.** In line with the 2023 Review of the Flexible Credit Line, the Short-Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform,<sup>31</sup> assessing the qualification criterion of "effective financial sector supervision" under precautionary arrangements will also integrate elements of relevance under the AML/CFT framework. This assessment will consider relevant existing indicators on AML/CFT (i.e., FSAP and AIV findings, assessment of legal and institutional framework and operational capacity for prompt corrective

**Figure 9. Marked Increase on Beneficial Ownership and Procurement During the COVID-19 Pandemic (by Approval Year of the Fund-Supported Program)**



<sup>31</sup> IMF, 2023 *Review of the Flexible Credit Line, the Short-Term Liquidity Line and the Precautionary and Liquidity Line, and Proposals for Reform*, Policy Paper No. 2023/039 (Washington).

actions and emergency assistance).<sup>32</sup> Beyond the precautionary arrangements and consistent with the Fund's policy of preventing cross-conditionality, staff will make its own judgement in the inclusion of AML/CFT conditionality when these are critical to achieving program goals (e.g., FSAP and AIV reports) (Box 5).

### Box 5. Cross-Conditionality and FATF Listing

**The Fund is fully responsible for establishing and monitoring all conditions attached to the use of its resources. As specified in the Guidelines on Conditionality,** cross-conditionality is to be avoided, under which the use of Fund resources would be directly subjected to the rules or decisions of other organizations. The FATF periodically identifies countries with strategic AML/CFT deficiencies based on their ratings in the MERs. Accordingly, the FATF's decision to include on or exit a member country from its list cannot be made a condition in a Fund-supported program. Such decision is not within the control of the member country nor within the responsibility of the Fund. The Fund has played a "good offices" role in facilitating dialogue among stakeholders in addressing the underlying AML/CFT deficiencies (e.g., assessing the potential impact of FATF listing to CBRs and remittances, or clarifying the criteria of effectiveness as opposed to technical compliance) and helping members exit the listing.

**Staff considers the macroeconomic impact of the FATF listing.** According to Kida and Paetzold (2021), there is a significant negative impact of the FATF listing on a country's capital flows, with an estimated large negative effect on average of 7.6 percent of GDP.<sup>1</sup> From 2010 to the present, 44 percent of the 78 countries that have been included in the FATF list were in a Fund-supported program at the time of the listing. The other half of the FATF-listed countries either did not have a Fund-supported program during the same period (42 percent) or did have a program but not at the time of the FATF listing (12 percent). Notably, almost 90 percent of the FATF-listed countries took at least five years to demonstrate effectiveness to be able to exit the list, which should be considered given the duration of Fund-supported programs.

**Fund-supported programs can include financial integrity-related conditionality that targets the underlying AML/CFT deficiencies when these are critical to achieving program goals or for monitoring program objectives.** Inclusion in the FATF grey list is normally based on a country's poor showing in their AML/CFT assessment under the FATF methodology and insufficient progress to address strategic deficiencies. Prior to listing, the country makes a high-level commitment with the FATF and develops an action plan to address key AML/CFT shortcomings. Subject to the Guidelines on Conditionality, specific action items in their AML/CFT action plan can be integrated as conditionality in Fund-supported programs (e.g., Pakistan and Jordan). When working with countries that are (potentially) subject to listing, staff's primary focus remains on macro-critical AML/CFT-related shortcomings that need to be addressed regardless of any listing; however, FATF listing itself may create additional secondary macro-critical risks for the country (e.g., CBR pressures, capital flows, and remittances), which make it relevant for staff assessment. Staff makes its own assessment of whether the member meets conditionality, allowing the Executive Board to take its own decision based on the analysis presented by staff.

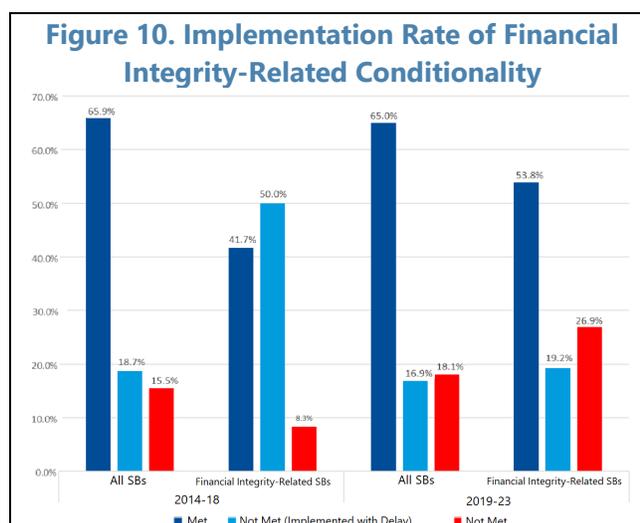
<sup>32</sup> As per the precautionary policy, in the event of FATF grey listing, the member would be unlikely to qualify for a flexible credit line or short-term liquidity line arrangement if staff assesses that deficiencies underpinning the listing indicate that the "effective financial sector supervision" criterion is not met. Such assessment would look at how deep and persistent AML/CFT deficiencies are, as well as review the substantive aspects of the FATF listing and the country's action plan related to effective supervision. Staff cannot solely rely on FATF determinations, as cross-conditionality is prohibited. Staff should make its own judgment including through using FSAP and AIV reports while being guided on technical issues by the FATF Standards and Methodology that have been endorsed by the Board (and how they have been applied in FATF assessments) to ensure methodological transparency and evenhandedness. Under precautionary and liquidity line arrangements for countries with strategic AML/CFT deficiencies relevant to financial sector supervision, the member would generally be expected to commit to addressing these deficiencies, likely supported by structural conditionality if critical to achieving program objectives.

### Box 5. Cross-Conditionality and FATF Listing (concluded)

<sup>1</sup> Mizuho Kida and Simon Paetzold, *The Impact of Gray-Listing on Capital Flows: An Analysis Using Machine Learning*, IMF Working Paper (WP/21/153).

**29. Financial integrity and governance measures<sup>33</sup> have also figured prominently in emergency financing (particularly related to the COVID-19 response) to help achieve the objective of transparency, integrity, and accountability in procurement.** Of the 92 rapid financing instruments (RFI) and rapid credit facilities (RCF) approved during the COVID-19 pandemic (2020 to 2022), four of them (Cameroon—2020 RCF; Nicaragua—2020 RFI-RCF; Papua New Guinea—2020 RCF; Sierra Leone—2021 RCF), included a prior action on publication of beneficial ownership information on companies awarded COVID-19-related procurement contracts. Through targeted CD support from the Fund, several LIC were able to establish systems to integrate beneficial ownership mechanisms under their existing AML/CFT frameworks towards emergency procurement and even expanded to general procurement. Through these efforts, staff also contributed to the March 2022 revisions of the FATF Standards, which now require countries to provide public procurement authorities access to beneficial ownership information (Background Paper III.B). A combined 90 percent of countries that made commitments to such measures related to pandemic spending have either fully implemented or substantially implemented reforms integrating beneficial ownership transparency in procurement.<sup>34</sup>

**30. Although financial integrity conditionality is generally met, lack of political will coupled with capacity constraints generally underscore the challenge of timely implementation of related structural reforms.** In terms of timely implementing conditionality, there has been an increase from 42 percent of financial integrity-related structural benchmarks being met in 2014 to 2018 to 54 percent in 2019–2023, based on the Fund's Monitoring of Fund Arrangement (MONA) Database (Figure 10). There was a substantial number of conditionality that was implemented with delay (i.e., 50 percent in 2014–2018 and 19 percent in 2019–2023). The increase in completing conditionality in the 2019–2023 period is closely reaching the average implementation rate of 65 percent for all structural benchmarks in the same period. In those cases where conditionality was not met the enactment of AML/CFT-related laws hinged on political support in the legislature and



<sup>33</sup> Publication of beneficial ownership information in procurement could prevent corruption (e.g., collusion, conflict of interest) as well as laundering of proceeds of crimes through the misuse of companies awarded procurement contracts.

<sup>34</sup> IMF, *Implementation of Governance Measures in Pandemic-Related Spending* (July 2023).

the target date for the reform measure was re-scheduled. Moving forward, targeted CD support will continue to be integrated to help authorities achieve financial integrity measures critical to Fund-supported programs while focusing further the reform on effective implementation (i.e., beyond adoptions of laws).

## E. AML/CFT Assessments

**31. AML/CFT assessments remain an important component of the Fund's AML/CFT work program.** During the 2018 discussion of the Fund's AML/CFT strategy, Directors reaffirmed that AML/CFT assessments are a key source of information for the Fund's work on financial integrity issues and stressed the importance of ensuring adequate quality and consistency (evenhandedness) of assessment reports across the range of assessor bodies. They encouraged staff to participate actively, as resources permit, in the review mechanisms that had been set up for all assessments to promote quality and consistency. Directors considered it appropriate for staff to conduct one to two Fund-led assessments per year. In addition, a number of Directors commented that staff should participate, on an exceptional basis, in assessments led by other AML/CFT assessor bodies (which was formalized in 2020).<sup>35</sup>

**32. The current round of AML/CFT assessments against the FATF Standards began in 2014 and is anticipated to conclude in 2024.**<sup>36</sup> The current assessment methodology includes two separate but linked exercises: an assessment of the country's technical compliance with the standard (i.e., the assessment of the country's legal and regulatory framework against the FATF Recommendations) and an assessment of the effectiveness of the countries' AML/CFT framework (i.e., an assessment of the extent to which the country achieves a series of 11 predetermined outcomes considering its ML/TF risks). The focus of the current and next round is on the second component, the assessment of effectiveness. Pursuant to a longstanding agreement and to ensure that there is no duplication of efforts, the global assessment burden is divided between the FATF, FSRBs, the IMF, and the World Bank. The Fund assesses some of its member countries' AML/CFT framework upon request<sup>37</sup> and focuses primarily on countries with systemically or regionally important financial sectors or high ML/TF risks. One hundred and sixty assessments<sup>38</sup> have been completed and published under this round.

**33. The current assessment methodology generates a better analysis of countries' AML/CFT frameworks, but it has also increased the complexity and resources implications of such exercise.** Assessors now pay greater attention to risk and country context (with even greater

<sup>35</sup> Please see Background Paper IV on the Fund's Relation with FATF Global Network and Egmont Group of FIUs.

<sup>36</sup> The original expectation for the fourth round was that all Mutual Evaluations (MEs) across the FATF Global Network would be completed by the end of 2023. However, during the COVID-19 pandemic, this timeline was extended to 2024 for the FATF and most FSRBs, except for CFATF and the Middle East and North Africa Financial Action Task Force (MENAFATF), which are expected to complete the round in 2024.

<sup>37</sup> Also, if staff assessed a FATF or FSRB member in the fourth round, it is considered preferable for these countries to have an FATF/FSRB-led evaluation in the fifth round, rather than have back-to-back evaluations by staff.

<sup>38</sup> As of the time of drafting, September 18, 2023.

emphasis contemplated for the fifth round), with more focused and meaningful discussions. At the same time, assessments continue to be particularly resource intensive for assessor bodies and assessed countries. This is mainly due to the depth and complexity of the standards as well as the assessment methodology, with respect to the assessment of the effectiveness of AML/CFT measures. The average timeframe for an assessment continues to be from 12 to 14 months:<sup>39</sup> (i) to allow countries sufficient time to gather and submit information and material to showcase their efforts, and to provide assessors with sufficient time to analyze the material received; and (ii) to enable a post-plenary review of assessment reports. For the fifth round, assessment timelines are expected to further expand to provide sufficient time for increased risk scoping. Finally, assessors have had to devote more resources to the assessment of technical compliance than originally anticipated. Staff has supported the increased focus on risk for the fifth round, in line with Directors' views in 2018.

**34. Staff has played an active role in the global assessment process.** After participating in 2015 in the first five pilot evaluations at the request of the FATF and Asia-Pacific Group on Money Laundering (APG), staff subsequently led the assessment of eight countries, namely Italy, Canada, Colombia, Mexico (all prior to the period under review), China (2019), South Africa (2021), Côte d'Ivoire (2023), and the British Virgin Islands (ongoing).<sup>40</sup> Staff is also participating as part of the assessment team<sup>41</sup> of Papua New Guinea (led by APG).<sup>42</sup> On average, staff delivers one assessment per year to FATF/FSRBs (and often, works on two assessments at a time where the timelines overlap), as a single assessment takes more than 12 months (including preparation and publication, and conversion into a ROSC).<sup>43</sup> This is in keeping with the Board's decision for staff to conduct one to two assessments per year, and maximize available staff resources, given how resource intensive each assessment is. In the period under review, the assessment process was paused for almost two years due to the pandemic.

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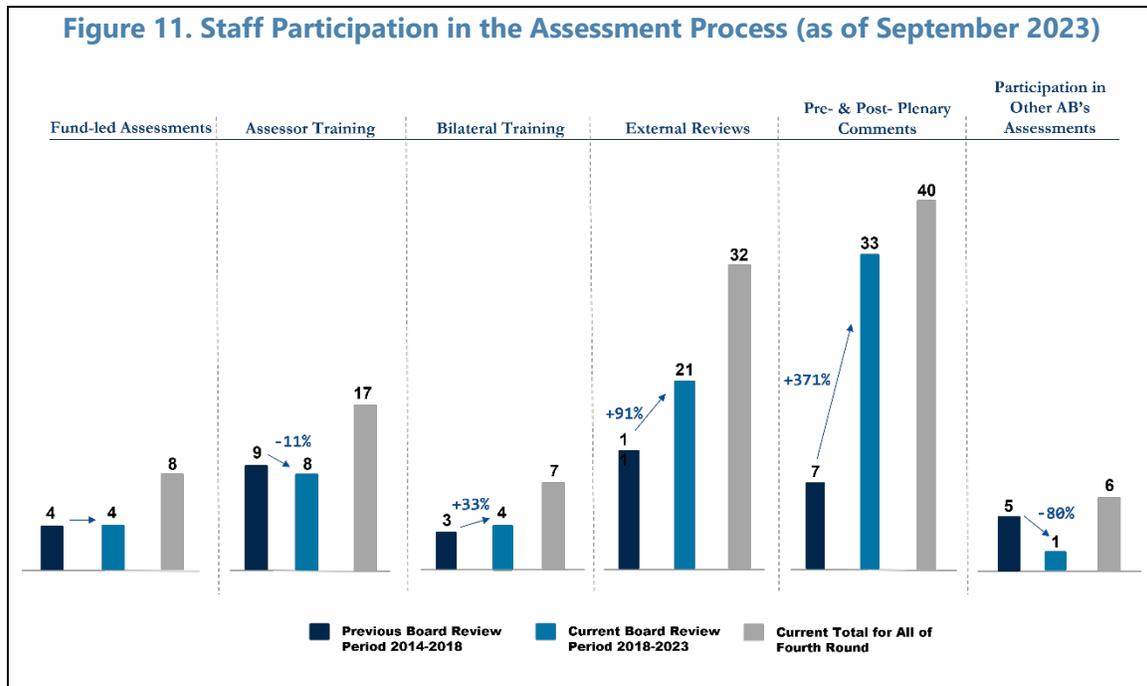
<sup>39</sup> Although a full assessment cycle would take about 16–18 months (including preparation time before the engagement with the country starts, and the time to finalize the MER after the relevant Plenary adoption, including the conversion into a ROSC).

<sup>40</sup> The assessment of British Virgin Islands should be adopted at the end of November 2023. The fifth-round assessment of Austria is scheduled to start in 2024.

<sup>41</sup> In line with the [2020 Board decision](#) for staff to participate in the assessment team of other assessments bodies, participation in APG's assessment of Papua New Guinea is ongoing and the assessment is expected to be completed in July 2024. Mainly as a result of the two-year hiatus in the assessment process due to the COVID-19 pandemic, implementation of the policy had to be delayed and started in 2023.

<sup>42</sup> While the projected resources in the 2020 Board decision policy was approximately equivalent to an average of 0.5 full-time equivalent (FTE), in practice this has been higher because staff in practice also has to mentor the assessment process to provide more structural support to the assessor body. This is in line with FATF's experience as a mentor to other assessor bodies.

<sup>43</sup> In 2018, Directors also reconfirmed that assessment reports prepared by the FATF and the FSRBs could be converted into AML/CFT ROSCs if requested by the assessed country. For the period under review, two countries (China and Côte d'Ivoire) requested the issuance of an AML/CFT ROSC.



**35. In line with the 2018 strategy discussion, staff has significantly increased resources spent on the review process<sup>44</sup> and pre-assessment trainings.<sup>45</sup>** Figure 11 shows the increase in review activities of staff. Despite the two-year hiatus in the assessment process, the figure shows an increase in the total number of quality and consistency reviews<sup>46</sup> and bilateral training in the period under review.

**36. Assessments conducted so far revealed that while technical compliance with the standard has improved, effective implementation of the AML/CFT framework continues to be challenging.** Many countries continue to struggle with the assessment of their specific ML/TF risks and the implementation of an appropriate risk-based approach, and measures that would ensure adequate transparency over the beneficial owners of legal persons and arrangements. Several also struggle with the effective investigation and prosecution of ML activities, the sanctioning of offenders, and confiscation of illicit proceeds.<sup>47</sup> The deficiencies identified in assessment reports

<sup>44</sup> As of September 2023, staff participated as designated external reviewer in 32 assessments and provided comments in 40 pre- and post-plenary reviews.

<sup>45</sup> Since 2018, staff was involved in the delivery of seven trainings for assessors (since during the COVID-19 pandemic the number of trainings significantly reduced) and four bilateral trainings for countries to be assessed.

<sup>46</sup> See Background Paper V.C: Survey Responses from International and Regional Organizations (IROs). The majority of organizations agree that the Fund has contributed to conducting AML/CFT assessments and assisted other assessing bodies appropriately through reviews and other forms of support.

<sup>47</sup> The FATF publishes and updates a [table with the consolidated ratings](#) from all published assessments. This table provides an up-to-date overview of the ratings that assessed countries obtained for effectiveness and technical compliance, and the date when it was last updated at the time of drafting was August 30, 2023.

with respect to the effectiveness of AML/CFT measures have notably driven increased demand for AML/CFT CD.

**37. Overall, the quality and consistency of assessments by the FATF Global Network is improving but remains a challenge, especially with respect to the assessment of the effectiveness of AML/CFT measures.**

The framework to ensure the quality and consistency of assessment reports is being implemented: assessors have passed the required training,<sup>48</sup> and most countries to be assessed have requested the pre-assessment training. The review processes of MERs conducted (for selected external reviews) prior to the respective FATF/FSRB plenary discussions has enabled external reviewers and delegations, including staff, to assist assessors and assessor bodies in detecting quality and consistency issues in the draft reports as early as possible.

**38. The number of reports with significant quality and consistency issues is decreasing, and staff's efforts are focused on assisting assessor bodies to continue making improvements.**

Staff has raised issues for discussions at plenary meetings. From experience as an external reviewer, staff has measured an improvement in the quality of reports between the early draft stage and their final adoption, including based on staff's recommendations to assessors. However, despite all this, in some cases reports have been presented and subsequently adopted with remaining concerns. FATF members have recognized this as well and reinforcing the quality of assessments is one of the main current policy objectives for FATF, with strong support from staff. One of the reasons that contributes to reports of lesser quality is that the risk-based approach is not widely understood nor interpreted consistently since many countries are in the initial stages of developing comprehensive, risk-based AML/CFT frameworks. During all stages of the quality and consistency process, staff has consistently reinforced that the understanding of risks is a dynamic and ongoing process and should not be used solely for producing a NRA.

**39. The upcoming fifth round will place greater emphasis on the major risks and context to ensure that countries focus on the areas where the risks are highest.**

While countries have made progress in improving technical compliance by establishing and enacting a broad range of laws and regulations to better tackle ML, TF, and PF, many countries still face substantial challenges in taking effective action commensurate to the risks they face. For countries to become better equipped to address the main risks, assessments will increase the focus on risks as set out below, resulting in a lengthening of the assessment process.

**40. The fifth round of AML/CFT assessments will be more work-intensive in a shorter time coupled with a longer ME process (15 months).**

The FATF determined that the length of the round will be a six-year cycle (compared to the 12-year period of the previous round, including the pandemic break), and agreed that, in principle, FATF and FSRB assessment cycles should be aligned, but with flexibility for FSRBs to adopt a seven-year assessment cycle, where necessary. The decision

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<sup>48</sup> While there is currently no formal test at the end of the assessors' training, all participants are rated based on their performance (including an assessment mock exercise) Typically, the assessor body/ies that organize the training select, amongst the participants, those who are deemed ready to conduct an assessment. All Fund assessors have undergone the training.

to shorten the round (with a streamlined and stronger follow-up process) aims at ensuring that countries which do not take action to address critical AML/CFT shortcomings are held to account quicker through speedier re-assessments. Staff has also been advocating for a shorter assessment round, as the current cycle left many countries with outdated assessment reports (at this time, there are countries that have not been assessed for over 10 years). As an intensive user of information from assessment reports as input for all Fund workstreams, having recent reports is critically important for staff.

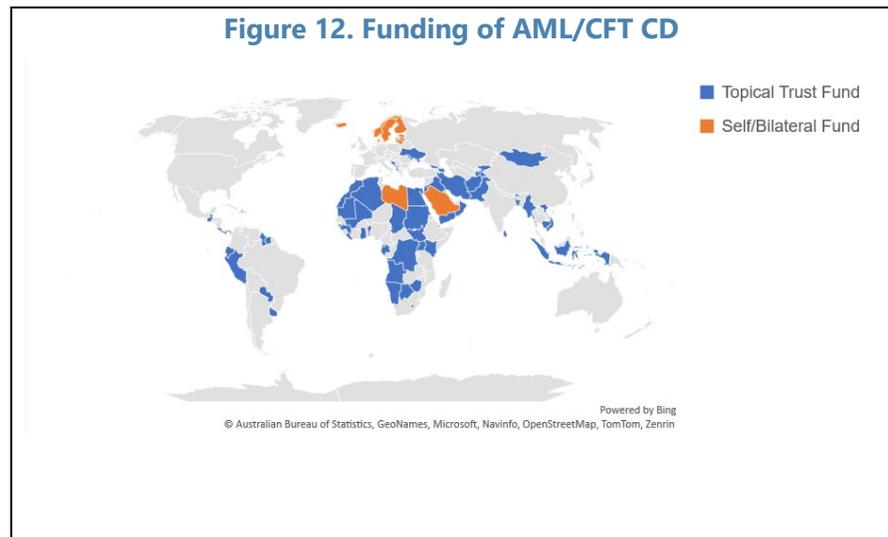
**41. With a shorter assessment round, the pressure is on all assessor bodies to increase the resources available to undertake assessments.** In the case of the Fund, additionally, there is a need to increase its support to FSRBs in improving the quality and consistency of their assessments through mentoring and participation in assessments.

## F. CD Program

**42. The Fund continues to have an extensive CD program to assist members in strengthening the effectiveness of their AML/CFT frameworks.**

Since 2018, preliminary analysis shows that while there was a small decrease in the level of activities during the pandemic (when staff relied on virtual delivery), overall,

the number of countries receiving bilateral TA on AML/CFT has remained consistent and covers almost all regions of the world (see Figure 12). On average, staff delivers around 40 TA projects per year.



**43. The CD program relies heavily on the AML/CFT Topical Trust Fund (TTF)<sup>49</sup> and includes several modules targeted at different AML/CFT issues.** TA activities continue to be organized around modules which take into account members' circumstances and are designed to assist members in: (i) identifying key AML/CFT areas for reform; (ii) upgrading the legislative and regulatory framework; (iii) conducting risk assessments to improve their understanding of ML/TF/PF risks; (iv) developing national strategies to strengthen their AML/CFT framework in a prioritized manner; (v) building capacity of AML/CFT supervisors of financial institutions and DNFBPs through

<sup>49</sup> In 2009, the [Fund launched the AML/CFT TTF](#), a donor-supported trust fund—the first in a series of TTFs, to finance CD in AML/CFT. Current donors under the AML/CFT TTF (now in its third phase) are Canada, France, Germany, Korea, Japan, Luxembourg, Qatar, Saudi Arabia, Switzerland, and the Netherlands.

improving their structures and tools; (vi) improving the structures and tools of financial intelligence units (FIUs) (vi) enhancing entity transparency, (vii) addressing IFF; (viii) AML to tackle proceeds of corruption; and (ix) AML to tackle tax crimes.

**44. In recent years, there has been an increase in regional, multi-country, and thematic projects.** Such approach resulted in the coverage of a broader range of countries and enhanced flexibility for targeted (e.g., Fintech/digital money-related topics) and shorter engagements designed to lead meaningful, measurable, and sustainable results. In addition, complementary research-related projects have allowed staff to analyze key topics (e.g., beneficial ownership and CFT) and produce materials to support countries with the implementation of effective AML/CFT regimes, along with the development of training programs.

**45. While staff encountered challenges in the delivery of CD during the pandemic, practices were adapted, and this greater flexibility in delivery modalities (including the use of virtual tools) will continue.** During the pandemic, when staff's ability to travel was restricted, virtual delivery modes were used to continue to deliver CD. Since then, staff has continued to use these solutions. Notwithstanding the lifting of travel restrictions, a hybrid model of field-based and virtual engagements has continued to maximize engagement, flexibility, effectiveness, and enhance CD value for money. In some instances where there were health or security concerns, CD teams continued to conduct virtual missions. Staff will continue to rely on virtual missions when the engagement with authorities is limited and does not require onsite travel.

**46. The Fund's AML/CFT CD program continues to be integrated into surveillance and Fund-supported programs and has helped countries strengthen their AML/CFT frameworks.** With the Fund's CD support, several member countries made significant reforms to exit (e.g., Pakistan, Sri Lanka, and Botswana) or make progress towards exiting (e.g., Jamaica) FATF closer monitoring and be removed from its grey list. Staff also provided CD to help countries implement AML/CFT conditionality (e.g., Angola, Benin, Chad, Ecuador, Gabon, Guinea-Bissau, Jordan, Kenya, Mali, Pakistan, Panama, Suriname, Uganda, and Ukraine) as well as measures to ease CBR pressures (e.g., Jamaica, Solomon Islands, and Tonga).

**47. In 2019, the AML/CFT TTF observed positive results overall.** External evaluators conducted a thorough assessment and evaluation of the TTF from an operational, strategic, governance, and budget perspective, including an examination of projects that were delivered during the period from May 1, 2014 to April 30, 2018.<sup>50</sup> Performance was assessed toward criteria such as relevance, efficiency, effectiveness, sustainability, and impact.<sup>51</sup> Notably, responsiveness to the needs and requests of recipient countries was rated "good" to "excellent," and high ratings were assigned for design and coordination within the Fund and other TA providers. Several evaluators' recommendations have been implemented and are also captured under this review. For example, increased prioritization of CD activities based on whether Fund intervention to build capacity is likely

<sup>50</sup> The review included some projections to 2020.

<sup>51</sup> Each criterion was then rated against a four-point scale (4–excellent, 3–good, 2–adequate, 1–inadequate).

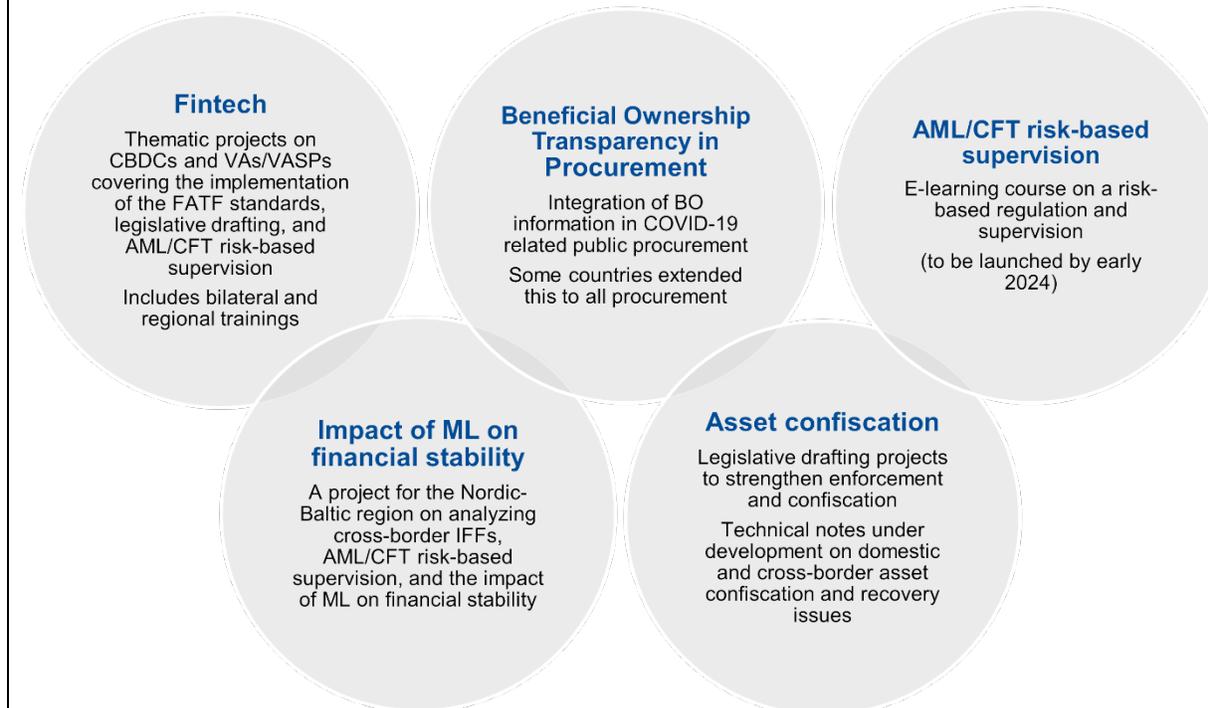
to lead to major decreases in ML, an increase in long-term experts, deeper collaboration with Fund experts working on prudential supervision (see Background Paper II), and the development of online instructional AML/CFT materials. Such recommendations were implemented during the current phase of the TTF.

**48. There has been an increase in the use of resources for multi-country and thematic projects.** Multi-country projects, such as the projects for selected Pacific Island countries on CBRs, Middle East and North Africa (MENA) countries, and the Nordic-Baltic region, have been an effective instrument for regional CD delivery for countries facing similar AML/CFT issues. Thematic projects (including IFF, VAs,<sup>52</sup> and CBDCs, see Box 6 below) have also resulted in increasing the quality of assistance to countries through the internal development of materials and tools, in response to requests from countries for assistance on these topics.

### Box 6. Emerging CD Themes

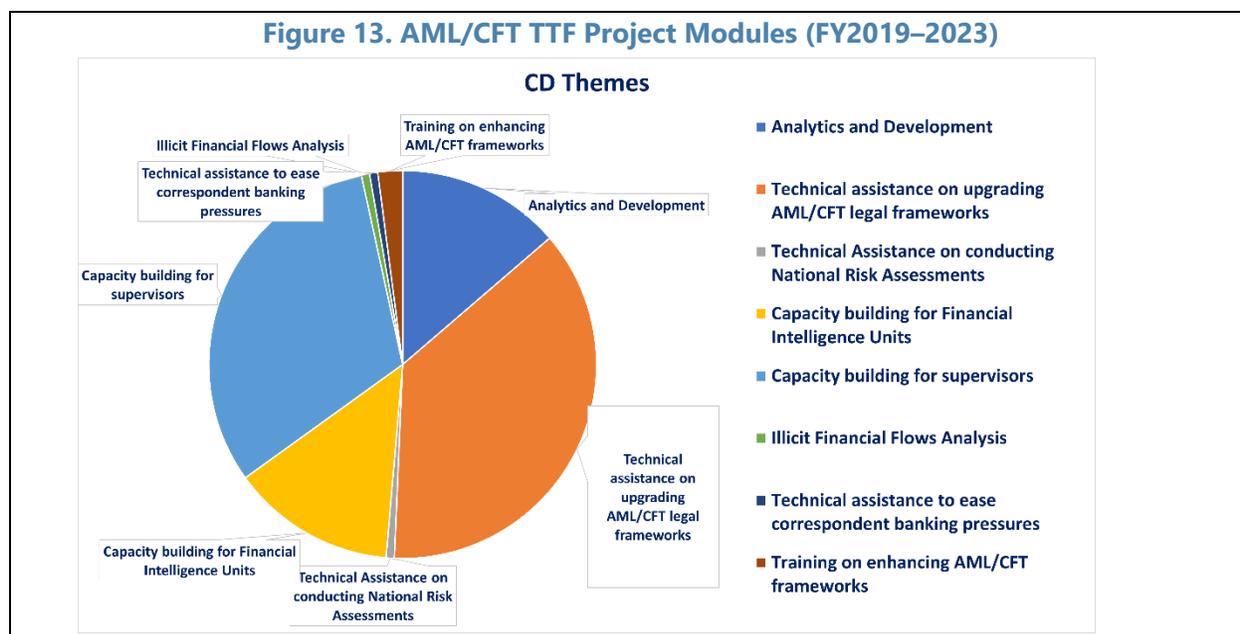
Several of the thematic and research-related projects complement broader priorities of the Fund and the international community.

#### Box Figure 1. Thematic and Research-Related Projects



<sup>52</sup> Staff developed two Fintech Notes on VAs and AML/CFT to help countries implement the new FATF Standards on VAs/VASPs.

**49. AML/CFT CD activities have been responsive to members' evolving needs with an increasing focus on effective implementation of AML/CFT frameworks.** Since 2018, based on initial data relating to bilateral projects funded by external donors, there has been an increase in projects relating to structures and tools (in particular, risk-based supervision of the financial sector).



**50. CD engagements are coordinated with Fund departments and, where appropriate, relevant external stakeholders.** CD activities are supported by four regional advisors in the Asia-Pacific region; Latin America and the Caribbean region; the MENA and Central Asia region; and Sub-Saharan Africa region. These advisors play a key coordination role to facilitate effective engagement with the authorities in their respective regions and to ensure traction. Staff works in partnership with area departments to understand the broader country context and to ensure that Fund priorities are considered when evaluating a request for CD. In addition, leveraging the broad range of expertise within the Fund, staff across different departments work closely together to provide comprehensive advice and assistance to countries. For example, on Fintech/digital money, staff works very closely and on a regular basis with other departments (in particular MCM and Information Technology Department) to provide comprehensive guidance to countries that are considering potentially issuing a CBDC and worked in partnership with MCM with several countries to ensure tailored advice on AML/CFT, along with prudential and conduct considerations (e.g., Albania, where staff provided advice and legal drafting assistance on VAs). Staff has closely coordinated, formally and informally, with multilateral (e.g., the World Bank and UN) and bilateral (e.g., Australia, Germany, Switzerland, United Kingdom, and the United States) TA providers and other stakeholders (e.g., the FATF, FSRBs, and the Egmont Group) to address CD demands across the membership and avoid duplication of efforts, maximize limited available resources, and deepen the impact of CD. For example, frequent meetings are held with the World Bank and UN Office on Drugs and Crime (UNODC) staff to discuss synergies between CD projects. Coordination can cover different aspects of CD delivery, including scope and timing.

**51. The AML/CFT CD program is underpinned by the Results-Based Management (RBM) Framework and the centralized Capacity Development Management and Administration Program (CDMAP).** Fund's CDMAP entered its third year. It continues to support the operationalization of the Fund's CD strategy by providing a holistic and transparent view of CD engagements over time at the country, regional, department, workstream, modality, and funding levels. The RBM framework, embedded in CDMAP, is an important tool that staff uses to help CD teams plan, monitor, and evaluate CD projects based on standardized metrics. RBM data helps staff and the authorities plan, monitor, adapt, and evaluate CD. That also helps prioritize delivery, including to countries with strong ownership, and promotes partnership on CD among staff, the authorities, and other development partners.

**52. AML/CFT CD engagements with Fund membership continue to be guided by a set of established criteria.** The criteria for CD engagement have been developed considering the Fund's expertise, and its overall strategic CD priorities to meet country demand and guide the allocation of scarce CD resources across regions. In November 2017, the Committee on Capacity Building included AML/CFT TA as a priority area. In following years, staff continued to be guided by broader Fund-CD wide developments, notably, the outcome of the IEO review of CD and Fund's CD strategy review. The criteria generally include the level of ML/TF threats and the AML/CFT framework vulnerabilities (e.g., FATF listing); integration of CD activities with surveillance and programs; country ownership and absorption capacity; availability of resources (both financial and human); ensuring complementarity; and avoidance of duplication with other TA providers. In applying these criteria, staff seeks to implement the Fund's priorities, achieve regional representation, and deliver high quality CD, subject to resource limitations, which at times constrains staff's ability to meet certain CD demands.

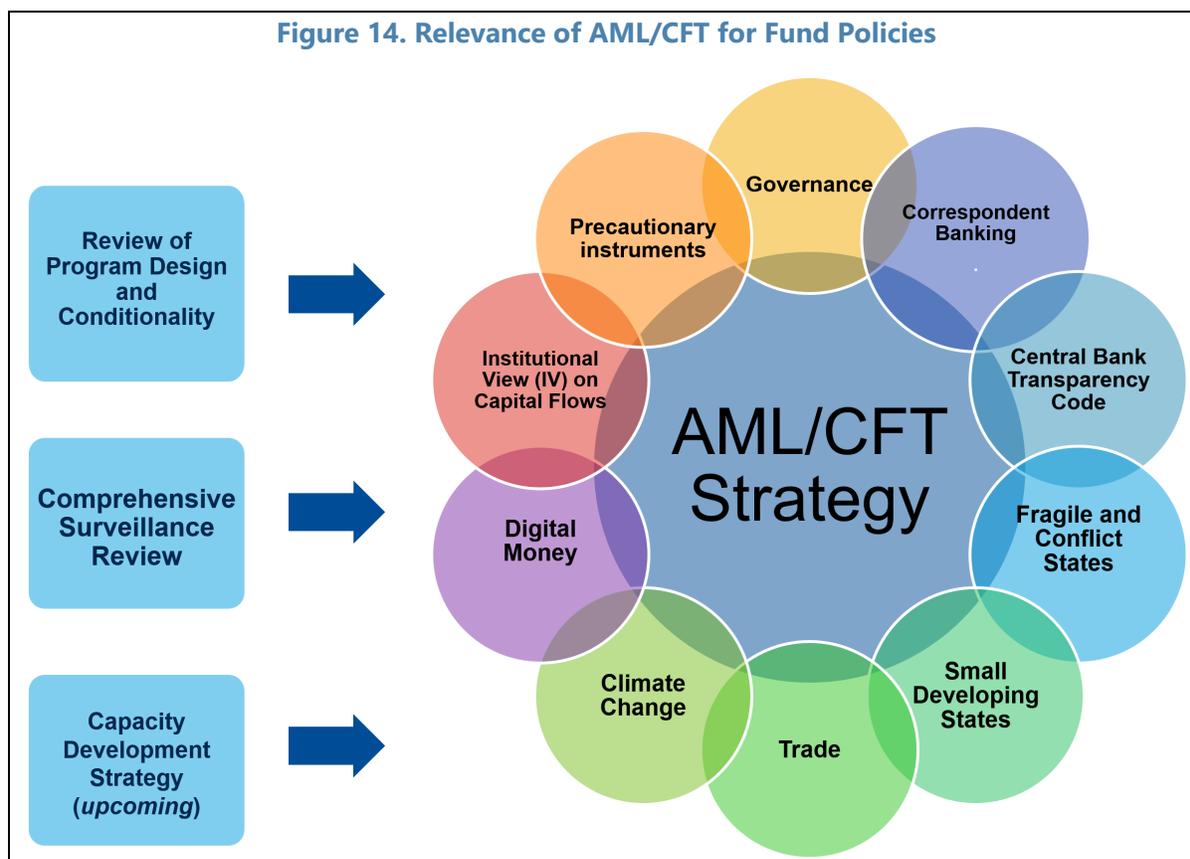
**53. The AML/CFT CD program is funded from external and internal sources.** In addition to the AML/CFT TTF, which finances most of the CD, a small number of CD projects are funded by the recipient, while others are funded by multilateral and bilateral sub-accounts. Finally, internal resources of the Fund are also used to fund about 5 to 8 percent of AML/CFT CD to support the implementation of Fund-supported programs or where urgent CD is needed (e.g., significant risk that CBRs could be withdrawn). During the pandemic, when travel restrictions were in place, there was a reduction in the overall amount spent on CD activities.

## AML/CFT POLICY CONTRIBUTIONS

### A. Integration of AML/CFT in Other Fund Policies

**54. Financial integrity issues are integrated in other Fund policy areas.** Financial integrity issues are highly relevant to the broader policy agenda of the Fund. For instance, AML tools are vital to support anti-corruption efforts, appropriate AML/CFT measures are critical to mitigate ML/TF risks associated with digital money including crypto assets, and financial integrity safeguards are key to climate change policies and programs (for instance, to prevent the misuse of carbon emission credit exchanges to defraud taxpayers and limiting the laundering of proceeds of environmental crimes).

Further, TF concerns could be acute for FCS, and assessing and mitigating TF risks is a key element in country engagement with members in line with the Fund's FCS strategy. Accordingly, AML/CFT and broader financial integrity issues have been integrated in a range of Fund policy papers where these considerations are relevant (Figure 14 and Background Paper III) and aligned with overarching Fund strategies (such as the Comprehensive Surveillance Review (CSR), and CD strategy).

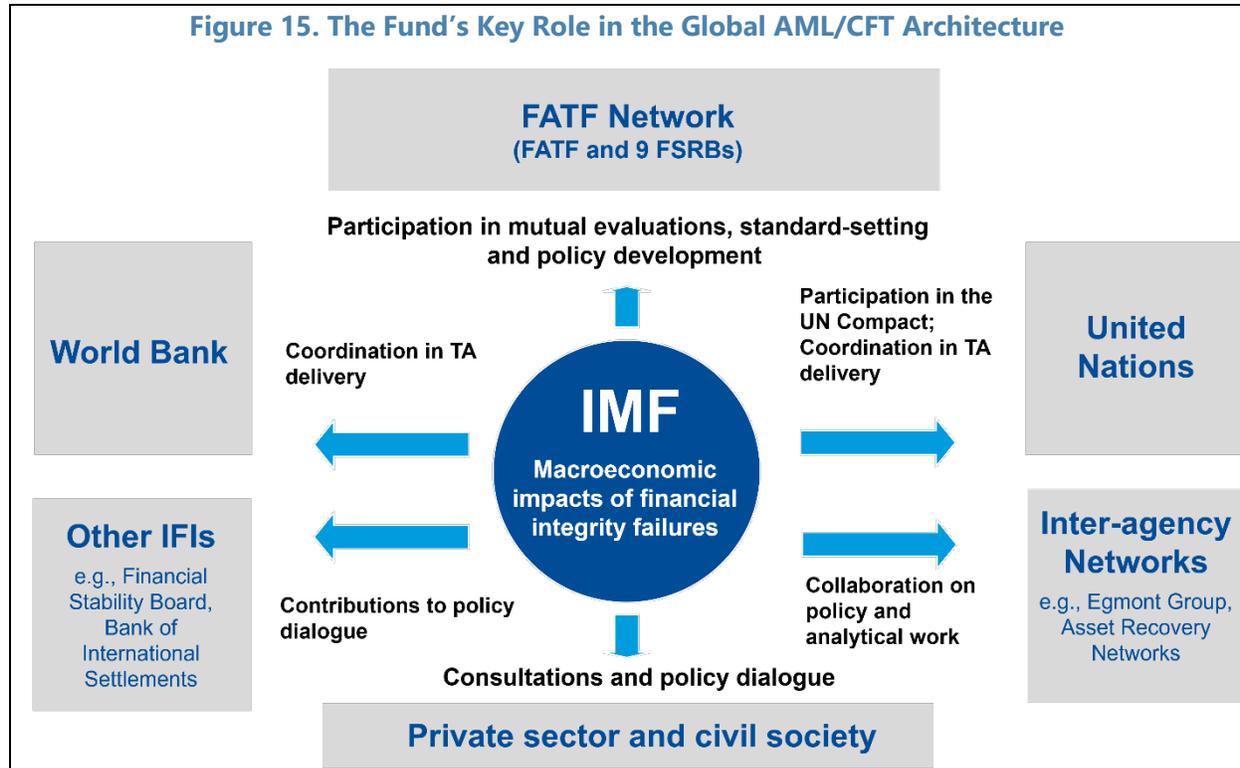


## B. Contribution to Global Policy Agenda and Engagement with Other Organizations

**55. The Fund is a key part of the global financial integrity architecture.** The breadth and cross-cutting nature of the global AML/CFT agenda calls for a cooperative approach among different stakeholders. The international AML/CFT efforts are coordinated with the World Bank, the FATF (the global standard-setter on AML/CFT) and the network of FSRBs; the UN,<sup>53</sup> and its specialized agencies, who, *inter alia*, lead coordinated efforts on counter-terrorism and CFT, international financial institutions such as the Financial Stability Board and Bank of International Payments, and initiatives of the International Group of Seven and the Group of Twenty (G-7/G-20). Policy and/or operational fora and specialized AML/CFT networks for member countries (e.g.,

<sup>53</sup> Such as UNODC, UN Office on Counter Terrorism (UNOCT), 1267 Monitoring Team, and Counter-Terrorism Committee Executive Directorate (CTED).

Egmont Group of FIUs, networks of asset recovery practitioners, Interpol, Eurojust, and Europol) also play a key role in coordinating and advancing thematic work on AML/CFT and promoting information exchange and cooperation. The Fund participates as an observer in international fora, contributing to policy discussions and coordinating CD work. (Figure 15).<sup>54</sup>



**56. The Fund's engagement on AML/CFT is unique since it focuses on macroeconomic and financial stability impacts of ML, underlying crimes, and TF.** The Executive Board has endorsed the AML/CFT standard adopted by FATF and FSRB members, and as part of its contribution to the global agenda, staff undertakes assessments against the international standards. The Fund's focus is different from the FATF's work on protecting the financial system against ML, through standard setting, typologies work (i.e., methods and techniques), and MEs.

**57. Taking advantage of the unique mandate and expertise of the Fund, staff closely engages with other international AML/CFT stakeholders to maximize complementarity in global AML/CFT work.** The Fund is at the forefront of thematic discussions and contributes to standard setting on AML/CFT. The international standards on AML/CFT set by the FATF are regularly reviewed and updated in line with emerging risks and global developments, notably with the recent revisions to strengthen the standards related to VAs/VASPs and to beneficial ownership

<sup>54</sup> For instance, staff participates in the UN Global Counter-Terrorism Compact as an observer, and engages with the Basel Committee on Banking Supervision AML/CFT Expert Group, UN bodies such as UNOCT, UNODC, and the CTED, inter-agency networks such as Egmont, among others.

transparency.<sup>55</sup> When contributing to standard setting, staff focuses on macro-relevant issues, highlights the perspectives of Fund members that are not directly represented at FATF, stresses the importance of a risk-based approach, promotes standards that can be applied regardless of the country's (legal) system, and that can be understood by the intended audience, who are mostly outsiders.

**58. Staff also increased its contribution to the global policy agenda on beneficial ownership and CFT by strengthening its partnership with the FATF and relevant UN bodies, developing guidance, and further engaging with Fund members.** Staff has been investing significant efforts, time, and resources to help Fund members in enhancing their beneficial ownership systems, and CFT frameworks, respectively. Staff recently published two books. The first, [Unmasking Control: A Guide to Beneficial Ownership Transparency](#),<sup>56</sup> and the second [Suppressing Terrorism Financing: Good Practices to Enhance Effectiveness](#).<sup>57</sup> In May 2023, staff joined, as an observer, the UN Global Counter-Terrorism Coordination Compact. The Compact is an inter-agency platform for coordination on counterterrorism, including CFT matters. Coordination under the Compact will enable staff to better coordinate CD efforts with other providers.

**59. Staff coordinates its AML/CFT engagements with other international organizations to improve effectiveness and minimize duplication.** Staff relies on reports of other international institutions, including the World Bank, FATF, and the UNODC, in relevant workstreams. In provision of TA to member countries, staff coordinates extensively with other donors and providers (including international organizations and regional development banks such as the UNODC, World Bank, and the Inter-American Development Bank as well as donor countries) to avoid duplication in engagement. The Fund also closely coordinates with the World Bank on AML/CFT coverage in FSAPs (see section V). Finally, staff collaborates with other international institutions through mutual review of analytical output on financial integrity-related issues.

**60. Staff has also facilitated dialogue among a broad range of AML/CFT stakeholders, including civil society organizations (CSOs).** The Fund's convening powers have brought together stakeholders, including international financial institutions (IFIs), country authorities, and CSOs, through the organizations of workshops, panel discussions, seminars, and other events centered on financial integrity-related thematic issues.

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<sup>55</sup> Staff has actively contributed to the FATF discussions on the review of the international AML/CFT standards and in other global fora (section VI) on other thematic issues related to financial integrity (i.e., on transparency of beneficial ownership, Fintech and digital money, cross-border payments, confiscation of proceeds of crime, among others). The Fund's work has also catalyzed the strengthening of international AML/CFT standards, as recently reflected in the broadening of beneficial ownership transparency requirements to procurement in the revised beneficial ownership transparency standards.

<sup>56</sup> Berkhout, Richard, and Fernando, Francisca, eds. 2022. *Unmasking Control: A Guide to Beneficial Ownership Transparency*. Washington, DC: International Monetary Fund

<sup>57</sup> El Khoury, Chady, ed. 2023, *Suppressing the Financing of Terrorism: Good Practices to Enhance Effectiveness*, Washington, DC: International Monetary Fund.

**61. Consultations with international organizations and CSOs have yielded favorable views on the Fund's AML/CFT engagement, with calls for further enhanced cooperation.** As part of this review, the Fund engaged extensively with external stakeholders including international organizations and CSOs through surveys and informal consultations (results summarized in Background Paper V. D). IROs highlighted the Fund's role in elevating the link between financial integrity, financial stability, and financial inclusion, and noted that Fund's coverage of AML/CFT issues contributed to increased attention and resource allocation to AML/CFT issues among the membership. CSOs appreciated the direction and scope of the Fund's AML/CFT coverage and emphasized the need for increased attention to cross-border ML/TF risks and integration of illicit proceeds in international financial centers. Stakeholders also called for greater dialogue and coordination going forward, through strategic cooperation with IROs (in policy development and CD delivery) and regular and timely engagement with national and global CSOs.

## AML/CFT STRATEGY—THE ROAD AHEAD

**62. Against this background, the question arises: how should the Fund move forward with its AML/CFT strategy?** The stocktaking and lessons learned described above call for deepening the coverage of financial integrity issues across all workstreams with a further focus on macroeconomic impact of financial crimes and continuing coordination with the rest of the international community.

**63. More precisely, staff will continue to deepen the integration of AML/CFT and financial integrity issues in the Fund's core functions through increased focus on mitigating macro-critical impacts of financial integrity failures and ensuring greater complementarity with other Fund-policies.** The current coverage of financial integrity considerations across the Fund workstreams appears to remain broadly appropriate. Staff's enhanced understanding of the nature and severity of financial integrity risks of member countries will continue helping staff in identifying potential impact on financial stability and broader macroeconomic performance and guide coverage in surveillance, FSAPs, and program conditionality and continue delivering on a comprehensive AML/CFT CD program in line with the overall Fund's CD strategy. With increasing demands for staff's financial integrity contributions across workstreams, this risk-based prioritization of scope and depth of coverage of AML/CFT issues, as well as a re-balancing of resources allocation across workstreams, appear to ensure the effectiveness of staff's contributions within the overall budgetary envelope.

**64. To further support these efforts, staff proposes to update the 2012 Staff Operational Guidance Note for Surveillance and Financial Stability Assessments and broaden it to Fund supported programs.** Following the 2021 CSR and the issuance of the 2022 Guidance Note on surveillance under AIV consultations,<sup>58</sup> staff proposes to update the 2012 Staff Guidance Note on the inclusion of AML/CFT in surveillance and financial stability assessments and to extend it to cover the design of AML/CFT conditionality in Fund-supported programs. While the criteria remain broadly applicable and up to date, an updated Guidance Note would better finetune the increased

<sup>58</sup> The 2022 Guidance Note for Surveillance superseded the 2015 Guidance Note and its supplements.

availability of quantitative and qualitative data and tools to assess risk and context of members, and better guide staff in ensuring complementarity of financial integrity issues in core functions.

### For Risk and Context

**65. Staff will continue enhancing their understanding of the nature and severity of financial integrity risks of member countries and assess potential impact on the macroeconomy.** Staff will further develop and improve its analytical tools for identifying risks to financial integrity to help prioritize the engagement on AML/CFT issues across the membership. Staff is currently developing analytical tools for a more comprehensive analysis of ML/TF/PF risks, including cross-border IFF and related macroeconomic impact (see Background Paper I on Addressing IFF), faced by the membership to enable a targeted selection and tackling of financial integrity issues through an enhanced focus on financial abuse in international financial centers with a potential impact on financial stability (e.g., S47) (see Background Paper II). Staff will also continue relying on the multipronged approach and synergies across the Fund's various workstreams to support individual member countries' efforts in enhancing the effectiveness of their AML/CFT frameworks and limiting the impact of financial crimes on the economy.

**66. Going forward, Staff will also continuously assess and mitigate enterprise risks.** This will be done through (i) reliance on different sources of CD financing and by broadening further the community of donors, (ii) ensuring no-cross conditionality with other institutions and playing a role of "good offices" when members are listed by the FATF, and (iii) continuing to invest in human resources and expertise to further strengthen staff's ability to deal with financial integrity issues.

### For Surveillance

**67. The current principles of engagement under surveillance remain appropriate.** Given the relevance of financial integrity issues, staff proposes to continue coverage of these issues under current principles of engagement. Namely, staff will deepen the coverage of financial integrity issues in an evenhanded manner commensurate with the risks faced by members, on a mandatory basis when these issues are macro-critical. Also, staff will continue covering AML/CFT issues on a voluntary basis in AIV consultation staff reports upon request from countries. To support its assessment of macro-criticality for surveillance, staff will take advantage of a wide range of quantitative and qualitative information that has become available to better inform its analysis of the countries' specific risk and context with more focus on cross-border IFF and financial stability, as noted in Section II above. Staff's enhanced understanding of financial integrity risks will also help to further prioritize staff's advice on key issues and assist countries in better targeting their limited resources effectively. Continued modalities of engagement, including the increased possibility to participate in virtual discussions in the context of AIV consultations, will help staff ensure more technical and targeted discussions with relevant country authorities.

**68. Staff anticipates that certain financial integrity topics are likely to require sustained and/or enhanced coverage when macro-critical.** Coverage can be in a wide variety of areas such as for members' fiscal (e.g., proceeds of tax evasion), financial sector (e.g., financial integrity failures

of banks, risks from VAs), or structural policies (proceeds of organized crimes, corruption, environmental crimes, drug trafficking). These include topics such as macro-critical financial integrity issues arising with respect to: (i) weak AML/CFT systems due to lack of capacity, (ii) international financial centers and complementarity with advice on international taxation, (iii) risk-based supervision of financial and non-financial sectors benefiting from FSAP inputs into AIVs (e.g., S47), (iv) Fintech/digital money-related issues (VAs/VASPs, CBDC), (v) transparency of beneficial ownership (including countries' efforts to put in place beneficial ownership registries, in line with the new requirements of the AML/CFT international standard), (vi) the need to strengthen CFT and TFS frameworks for jurisdictions with high TF risks, including in FCS, (vii) the emerging use of AML tools to contribute to mitigation of climate change-related risks, and (viii) an enhanced focus on cross-border financial flows. Staff will also enhance the linkages of AML/CFT issues to macroeconomic issues in staff reports (e.g., fiscal, financial, and structural issues).

**69. Staff's engagement will continue to be aligned with the surveillance priorities identified in the 2021 CSR.** A number of these financial integrity topics are also in line with the Fund's priority areas for coverage in surveillance. This includes stepping up efforts to better integrate risks and uncertainties in surveillance and pre-empt adverse spillovers through better use of staff's enhanced understanding of financial integrity risks. In this context, there is a possibility to further enhance coverage in multilateral surveillance, when financial integrity issues can raise risks to global economic and financial stability, for example, with respect to financial sector spillovers (e.g., capital flight resulting from IFF) which could be discussed under the GFSR and spillover reports. In addition, there is a need to consider financial integrity issues, where relevant, in areas such as digitalization, inequality, informal and underground economy, and socio-geopolitical developments given the enhanced focus on fostering economic sustainability. Staff will also continue efforts to ensure synergy and complementarity with other relevant Fund policies to ensure more unified policy advice in these areas.

#### **For FSAP**

**70. The current policy of mandatory coverage of AML/CFT issues with flexibility in scope and depth remains appropriate.** The policy has enabled more focused discussions of AML/CFT issues most relevant to the country and its financial stability while avoiding unnecessary duplication of assessment efforts. It has also allowed useful updates of the most recent comprehensive assessments. The analysis of financial integrity issues has effectively contributed to the broader discussion of the stability and soundness of the financial sector.

**71. In the period ahead, staff anticipates continued in-depth analyses of issues with broader implications for members' financial sectors and their stability, such as AML/CFT supervision of core principles institutions with further focus on cross-border risks.** As the methodology for the next round of AML/CFT assessments is very similar to that for the current round, comprehensive assessments from the current round would remain useful sources of information in the absence of a comprehensive assessment in the next round. This would allow dedication of more resources to in-depth analysis of selected issues relevant to financial stability, including in international financial centers (e.g., S47). While staff will continue focusing on AML/CFT supervision of banks and non-bank

FIs, the coverage of issues pertaining to supervision of gatekeepers (e.g., lawyers, accountants), and Fintech/digital money is expected to increase as digitalization of finance deepens. Staff continues to enhance its understanding of ML/TF risks faced by countries, mainly through its development of ML/TF risk assessment tools, access to an increasing number of countries' risk assessments, and its analysis of ML/TF trends and stress testing related to financial integrity failures, cross-border financial flows, and interconnectedness, and their potential impact on financial stability (see Background Paper II).

### For Fund-Supported Programs

**72. Staff will continue to implement the policy of flexibility in integrating financial integrity reform measures in Fund-supported programs, when critical to achieving program objectives, or monitoring program implementation, or necessary for implementing the Articles of Agreement or their underlying policies.** In designing such measures, staff will continue to consider the evolving ML/TF/PF risks and the member's specific circumstances and capacity constraints. Proposed measures can include those within the international AML/CFT standards and other relevant tools beyond the standards to support the country's efforts in making their AML/CFT regimes more effective in combatting financial crimes. For example, the COVID-19 pandemic allowed staff to integrate beneficial ownership and transparency of awarded companies in public procurement. Financial integrity-related reform measures are also expected to figure prominently in Fund-supported programs in the context of emerging issues for the Fund, such as ML/TF risks; TF in FCS; cross-border aspects of ML, trade-based ML, and IFF; and tackling proceeds from environmental crimes. Staff will ensure that a detailed explanation of the criticality of financial integrity-related reforms as well as their justification for inclusion in the Fund-supported program is provided. Finally, staff will also continue to leverage the work in surveillance to assess the criticality of financial integrity-related issues, as well as in CD to support reform efforts under Fund programs.

**73. Staff will also enhance further its in-house expertise on financial integrity and AML/CFT structural reforms for the purpose of designing conditionality.** While the FATF remains the global standard setter on AML/CFT, staff has established its own extensive expertise on effective AML/CFT regimes and broader financial integrity issues. This expertise has been built and extended through the years with staff's activities across different workstreams. The focus has been on identifying financial integrity-related reforms that will help countries address macro-critical structural challenges. Staff will continue relying solely on internal expertise on financial integrity and AML/CFT in designing conditionality in Fund-supported programs, subject to the principles of criticality, parsimony, and prohibition against cross-conditionality.<sup>59</sup>

### For Assessment-Related Work

**74. The Fund will continue its engagement in AML/CFT assessments with a focus on quality and consistency for countries facing higher ML/TF risks and for FSRBs that are facing**

<sup>59</sup> IMF, *Review of Conditionality* (2011), *Revised Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines* (2014), and *Review of Program Design and Conditionality* (2018).

**challenges with quality and consistency.** Macro-relevant findings of AML/CFT assessments continue to play a significant role in many areas of the Fund's work. Therefore, staff's involvement in efforts of the FATF and its members for stronger quality and consistency of reports across all assessor bodies is highly valuable. Staff will support stronger assessments through quality and consistency reviews and increase these as much as possible. In addition, staff's enhanced understanding of risks will also result in more robust risk-focus of staff's inputs in reviews of reports of other assessor bodies, including when acting as an external reviewer. Staff's risk understanding will also contribute to the prioritization of assessments. Staff will also continue to prioritize assessments of FSRBs with greater challenges, as needed.

**75. Beyond a focus on quality and consistency reviews, staff will support to the FATF network and members through other means.** Staff will continue to provide trainers for assessor trainings and will increasingly propose the Fund's training centers as venues for such trainings. Staff will also contribute to the discussion of the modalities for assessments and follow-up processes by the FATF network, notably to stress the importance for such follow-up processes to also focus on risks. Recent changes to the international standards, such as in relation to beneficial ownership, will also require an updated assessment methodology, to which staff can contribute. With the Fund's near global membership, staff is best placed to advocate at the FATF for clarity in the drafting of the standards and the assessment processes, and for these to be relevant for all types of economies.

**76. Recently, the International Monetary and Financial Committee Communique called on the Fund to strengthen its support to members, the FATF and FSRBs, and the G-7 and G-20 have asked that the Fund increase its assessments-related contributions, with FATF and FSRB members echoing these calls.** In 2018, the Executive Directors broadly agreed with staff's proposal to continue the approach of conducting a minimum of one to two assessments per year while maintaining increased participation in global quality and consistency review mechanisms and in assessment-related training. Currently, staff often conducts two assessments and delivers one per year. For staff to deliver on two assessments and participate in one assessment led by other bodies per year would require an adaptation of the 2018 policy. Provided that the required resources to enable these activities are made available, staff would be able to progressively ramp up its work to deliver two assessments and support struggling FSRBs by providing a mentor/assessor to one of their assessments per year, as described in paragraph 81 below. An increase in resources would be required as well, considering that there is no expressed desire for staff to reduce its resources available for the coverage of the Fund's core functions (see also the resources section below).

#### **For CD**

**77. Staff will continue to carry out a combination of bilateral, thematic, regional, and research and development projects and align AML/CFT CD engagements with the Fund's CD strategy.** In order to meet specific country needs, the broad catalogue of projects allows greater agility to rapidly respond to country needs (e.g., AML tools to tackle proceeds of corruption and tax evasion) and support conditionality, and to reach a wider audience (e.g., through the publication of research materials, e-learning and training events), to target specific topics (e.g., Fintech/digital money and CFT), and to continue to provide bilateral and more tailored assistance (e.g., country

projects that cover multiple topics that are delivered over a longer duration). Staff anticipates that demand for assistance on stand-alone legal drafting projects will decrease and, based on challenges countries face regarding effective implementation of the standard, thematic projects, and assistance on structures and tools, along with risk assessments and emerging topics (e.g., beneficial ownership, VAs) will increase.

### **For Policy Engagement and Cooperation with Other Stakeholders**

**78. When appropriate, staff will continue highlighting financial integrity issues in other Fund policies and closely collaborate with other IROs and leverage global and regional partnerships to maximize the impact of its AML/CFT work while focusing on its comparative advantage.** Staff will continue to rely on the FATF network's AML/CFT assessments (where available and recent) as an input to supplement its own understanding of financial integrity issues. Staff will also continue to work in close coordination with other IFIs, and other donors and providers in its CD delivery to avoid duplication of efforts, help with the effective utilization of internal resources, and aid in prioritization efforts.

**79. Further, staff will deepen its engagement with a broader range of external stakeholders.** Staff will more regularly consult and engage with CSOs specialized in financial integrity issues on both global and country specific issues.

### **Resources Implications**

**80. The balanced and prioritized approach to financial integrity issues across the Fund's workstreams has enabled staff to make a significant impact within the allocated resource envelope.** The demand for staff's contributions remains particularly high overall and is increasing, especially related to emerging policy areas (e.g., governance, FCS, Fintech/digital money, CBR, etc.). The prioritization measures taken by staff have enabled the extension of the coverage of financial integrity issues in other Fund policies and allowed the Fund to make an impact on countries' AML/CFT frameworks and contribute meaningfully to international efforts, while remaining within its budgetary envelope. Overall, the balance between the various workstreams and the enhanced leveraging of synergies among the Fund's core functions (i.e., surveillance, programs, CD) has proven very useful and remains appropriate for the program going forward.

**81. Staff's proposal to respond to calls for additional assessment work represents a material increase in gross resource requirements which will require difficult tradeoffs within the real flat envelope.** Overall, staff's proposal would imply a gross increase of about four structural FTEs over the next four years and additional financial resources equivalent to one A13/A14 FTE a year (for an overall dollar equivalent of US\$1.8 million, or 5 percent of LEG's personnel budget). This gradual expansion would allow staff to ramp-up assessment work and participate in one assessment conducted by other assessor bodies in FY 2025 and two in FY 2026. In FY 2027, staff would be able to start delivering a second Fund-led assessment per year. From FY 2028 onward, staff would deliver two Fund-led assessments (one covered by current resources and another by the additional gross resource allocation) and participate in one assessment by other bodies every year. The space for this

work will need to be funded through savings/reprioritization given the flat real budget. Funding these needs through reprioritization within the current AML/CFT would require a significant reduction in coverage of AML/CFT issues in AIVs, which is not recommended. The issue of increasingly binding institutional constraints is also relevant at the departmental and broader Fund-wide level and will require difficult trade-offs in the budget discussions when the full range of priorities can be discussed collectively.

## ISSUES FOR DISCUSSION

**82. Staff proposes that the next review be conducted in five years.** Directors may wish to discuss the proposed following issues:

- Do Directors agree with the overall direction to continue to enhance the understanding of the nature and severity of financial integrity risks, with a further focus on assessing and mitigating macroeconomic impact which will help staff further prioritize depth and scope of future engagements?
- Do Directors support the proposed approach on surveillance, where staff will put greater focus on the linkages between financial integrity issues with fiscal, financial sector, and structural priorities?
- Do Directors agree with the proposed approach on FSAPs, where staff will put greater emphasis on the nexus between financial integrity and financial stability?
- Do Directors agree with the proposed approach on Fund-supported programs, where staff will continue to use its independent judgment in designing AML/CFT conditionality in line with program objectives?
- Do Directors agree that the staff—in line with the Fund's CD strategy—should continue to provide comprehensive CD support with greater flexibility to respond to demands and to deepen support for other Fund workstreams?
- Do Directors agree that staff should continue highlighting financial integrity issues in other Fund policies, enhance its collaboration with other IROs and CSOs, and leverage global and regional partnerships to maximize the impact of the Fund's AML/CFT work?
- Do Directors agree that any increase in the number of Fund-led assessments and in participation in FSRB-led assessments should occur only if there has been an increase in additional resources to enable the undertaking of this work so as to avoid undermining the work the staff is doing on AML/CFT in other areas under the Fund's core functions? Do Directors agree that—again subject to such additional resources—the IMF will deliver on an additional assessment, and participate in one FSRB-led assessment per year as discussed in paragraph 81 above?

<b>Table 1. Progress since the 2018 Review—Key Takeaways from the 2018 Summing Up</b>		
<i>The Executive Board reviewed the Fund's AML/CFT strategy in November 2018. This table highlights some of the major views expressed by Executive Directors, at the time, and sets out how staff has addressed these.</i>		
<b>Topic</b>	<b>2018 Summing-up</b>	<b>Response/Progress</b>
Synergies between workstreams	Directors welcomed staff's efforts in increasing the synergies between different workstreams to strengthen the efficiency and the impact of the Fund's AML/CFT work, while a number of them saw a need for better data to assess more comprehensively the effectiveness of the Fund's work in this area.	Relevant sections of the paper and Annex I on synergies across workstreams to enhance AML/CFT effectiveness provide country examples to illustrate how staff has ensured the complementarity and synergy between lending, surveillance, and CD.
Surveillance and Fund-supported programs	Directors emphasized the continued need for evenhandedness in the coverage of these issues, in a complementary manner with the framework for enhanced engagement on governance, and paying due regard to countries' institutional, capacity, and resource constraints.	AML/CFT issues have become more integrated into policy advice and program conditionality. Further details are elaborated in Section II B (Fund surveillance) and D (Fund-supported Programs). Section III on AML/CFT Policy Contributions and Background Paper III explain how AML/CFT and broader financial issues have been complementary to a wide range of Fund policies, including the governance policy.
FSAP	A number of Directors stressed the need to avoid duplication of work and to be mindful of the resource implication of the Fund and the country involved. Directors also noted that greater reliance on assessment reports was expected, as more of these reports become available.	Section II C (FSAP) elaborates on the Fund's effort to avoid overlaps by using the main findings of AML/CFT assessments.

<b>Table 1. Progress since the 2018 Review—Key Takeaways from the 2018 Summing Up (continued)</b>		
Assessments	Directors broadly agreed with the approach of conducting a minimum of one to two assessments per year while increasing participation in quality and consistency review mechanisms and in assessment-related training.	As elaborated in Section II. E (Assessments), Fund-led assessments have effectively contributed to the FATF Global Network's implementation of the international standards. The current policy to conduct a minimum of one to two assessments per year has allowed staff to devote the remaining resources to increase staff participation in the quality and consistency process, and in assessor and country trainings. In addition, staff has participated in an assessment led by another body, pursuant to the policy adopted by the Board in 2020.
CD	Directors emphasized the importance of ensuring the efficiency and agility of the programs and took note of the need to re-evaluate the current CD funding model in the medium term.	Section II. F (CD) discusses how staff has ensured the prioritization and impact of the CD projects, how the Fund has collaborated with donors and whether the current mix of funding sources is appropriate to meet countries' demand.
Contribution to the global policy agenda	Directors welcomed the Fund's contributions to the global AML/CFT policy agenda and encouraged continued cooperation with the World Bank, the FATF, the FSRBs, and other stakeholders.	Section III (AML/CFT Policy Contributions) and Background Paper III illustrate the Fund's continued contributions to the global AML/CFT policy agenda and the continued strengthening of its engagement with stakeholders.
Emerging issues	Directors commended staff for their efforts to address financial integrity considerations in the context of broader current and emerging policy issues, such as CBRs, Fintech/digital money, and IFF.	Staff's engagement on thematic issues is explained in Section III (AML/CFT Policy Contributions), as well as in boxes, annexes, and Background Papers.

<b>Table 1. Progress since the 2018 Review—Key Takeaways from the 2018 Summing Up (concluded)</b>		
Resources	Directors looked forward to greater information on the resource implications of the increased demand for financial integrity work in all workstreams.	The enhanced understanding of the nature and severity of member countries' ML/TF/PF risks continues to guide the depth and focus of staff's engagement across all the workstreams, enabling staff to use resources flexibly and efficiently despite the increase and shift in demand as discussed in paragraphs 80 and 81. The upcoming round of assessments and the resource implications of increasing staff's assessment-related work are discussed in Section II. E and in paragraph 81 of the paper.

## Annex I. Synergies Across Workstreams to Enhance AML/CFT Effectiveness—Country Examples

- 1. Achieving key AML/CFT reform measures in lending programs were supported through CD assistance, especially in countries facing capacity constraints.** For example, in Angola: the weak AML/CFT regime led to severe pressures in CBRs, including the loss of direct dollar CBRs in October 2016. With the Fund's TA, reform of the AML/CFT legal framework was completed and came into force in January 2020 (structural benchmark). The support that was provided was recognized in the 2023 AML/CFT assessment of Angola by the Eastern and Southern Africa Anti--Money Laundering Group, where FATF Recommendations that were covered in the AML/CFT Law scored higher than those that were not on average. The Angola TA project also covered support on risk-based supervision geared towards aligning local practices with the expectations of correspondent banks.
- 2. The 2019 AIV consultation staff report for Suriname highlighted the need for substantial efforts to bring Suriname's AML/CFT regime into technical compliance with the FATF Standards.** The Board approved an EFF program for Suriname in December 2021 which included a structural benchmark to amend the AML/CFT law. To support authorities further, staff commenced a CD project in 2021 to provide legal drafting assistance to help authorities introduce a new AML/CFT law, which was successfully enacted in December 2022, and which will assist Suriname in its follow-up to its 2023 AML/CFT assessment by the CFATF.
- 3. Analysis and recommendations from CD efforts have integrated surveillance and assessment activities.** For example, a regional Nordic-Baltic CD project involved an examination of cross-border ML/TF threats and vulnerabilities in the region encompassing Denmark, Estonia, Finland, Iceland, Latvia, Lithuania, Norway, and Sweden, along with potential implications on financial stability. Tailored advice from the project has been included in surveillance (e.g., Lithuania 2021 AIV Selected Issues Paper) and the analysis has also been used to inform the review of AML/CFT frameworks as part of the respective FSAPs (e.g., Sweden and Iceland).
- 4. Finally, research projects on key AML/CFT issues are helping guide staff recommendations in surveillance and lending and provide a foundation for CD future work.** The Fund's Handbook "*Unmasking Control: A Guide to Beneficial Ownership Transparency*" provides guidance on establishing comprehensive frameworks for holding and using beneficial ownership information. The 2023 book "*Countering the Financing of Terrorism: Good Practices to Enhance Effectiveness*" outlines challenges and solutions to understanding TF risks and effectively mitigating them. Such guidance illustrates staff's intellectual leadership in these areas and will help drive global and national discussions on these issues.