

INTERNATIONAL MONETARY FUND AND WORLD BANK

Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments and Delivery of AML/CFT Technical Assistance

Joint Interim Progress Report of the Work of the IMF and the World Bank

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GLOSSARY

AML	Anti-Money Laundering
APG	Asia Pacific Group on Money Laundering
CFATF	Caribbean Financial Action Task Force
CFT	Combating the Financing of Terrorism
CTR	Currency Transaction Report
ECA	Europe and Central Asia
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
EU	European Union
FATF	Financial Action Task Force
FIRST	Financial Sector Reform and Strengthening Initiative
FIU	Financial Intelligence Unit
FSAP	Financial Sector Assessment Program
FSRB	FATF-Style Regional Bodies
GAFISUD	Grupo de Acción Financiera de Sudamérica
IAE	Independent AML/CFT Expert
IFI	International Financial Institution
IMFC	International Monetary and Financial Committee
LAC	Latin America and Caribbean Region
ML	Money Laundering
Moneyval	Evaluation of Anti-Money Laundering Measures
OFC	Offshore Financial Center
OGBS	Offshore Group of Banking Supervisors
ROSC	Report on Observance of Standards and Codes
STR	Suspicious Transaction Report
TA	Technical Assistance

EXECUTIVE SUMMARY

The Bank and the Fund are making further progress in implementing the Action Plan on AML/CFT endorsed by the IMFC in November 2001 and the Development Committee in April 2002. The 12-month pilot program of AML/CFT assessments using the comprehensive methodology document, initiated in October 2002, is successfully underway with good cooperation with the FATF and many of the FSRBs. Between 46 and 56 assessments in total are expected to be completed during the pilot period, including at least 36 led by Fund/Bank staff, and up to 8 by the FATF, and 12 by the FSRBs.

Planning and executing the pilot program have involved extensive coordination and cooperation among the Bank/Fund, the FATF/FSRBs, and their members:

- *The FATF, GAFISUD, Moneyval, and the OGBS have endorsed the methodology (with APG and ESAAMLG expected to do so shortly); GAFISUD has already conducted a mutual evaluation using the comprehensive methodology during the pilot period;*
- *A growing number of FATF/FSRB and Egmont Group members have identified and agreed to provide independent AML/CFT experts (IAE) to serve on the roster of experts for assessing and reviewing the implementation of criminal justice elements, and nonmacroeconomically-relevant sectors that are vulnerable to money laundering or financing of terrorism; and*
- *Staff and the FATF have agreed upon a core uniform set of assessments documents.*

Some preliminary observations can already be drawn from those pilot assessments either completed or underway. While there is a wide range of compliance levels, assessed jurisdictions appear to be placing a high priority on meeting international standards. There are a number of instances where laws are needed or need to be updated and, in many cases, implementation has lagged behind legislative action.

There are some areas where further refinement is needed in the assessment process. These include the participation and review of the work of the IAE. Bank/Fund Staff is participating in a recently established FATF working group to address these issues.

The Bank/Fund technical assistance delivery is being greatly increased. Legislative drafting and review (especially with respect to the financing of terrorism), as well as implementation, capacity building, and training in the financial sector are priorities. Regional projects are being used to reach a large number of jurisdictions. A web-based database for the sharing of information on TA requests and responses is operational and is being used actively by FSRBs, the Bank, and the Fund to identify technical assistance needs. Further follow-up with donors is planned to ensure that identified needs are addressed.

Staff will prepare a full report following the October 2003 completion of the 12-month pilot program.

I. INTRODUCTION

1. This paper provides an interim report on the implementation of the 12-month pilot program of AML/CFT assessments pursuant to the request by the International Monetary and Financial Committee (IMFC) during the 2002 Annual Meetings. It also provides an update on the overall progress in intensifying Bank/Fund technical assistance on AML/CFT in accordance with the Action Plan endorsed by the IMFC in November 2001 and the Development Committee in April 2002.¹ Further, this provides an update on the progress in intensifying Bank/Fund technical assistance on AML/CFT.
2. In its Communiqué of September 28, 2002, the IMFC endorsed the conditional addition by the Fund and Bank Boards in July and August 2002 of the Financial Action Task Force (FATF) 40+ 8 Recommendations to the list of standards and codes for which Reports on the Observance of Standards and Codes (ROSCs) are prepared, and looked forward to the final adoption of the methodology and an early start of the 12-month pilot program of assessments and accompanying ROSCs. The IMFC also encouraged countries to make resources available for the pilot program and urged the Fund and Bank to coordinate closely with other efforts to provide TA. In its Communiqué of September 28, the Development Committee also endorsed the conditional addition of the FATF 40+8 to the list of standards and codes and the beginning of the pilot program, and called on the Bank and Fund to enhance their technical and capacity-building efforts.
3. The conditions set by the Bank and the Fund Boards in July and August 2002 included that the FATF endorse a satisfactory final draft of the common AML/CFT assessment methodology document (“methodology”) and its use in both Fund/Bank-led and FATF/FSRB-led assessments, and that it undertake assessments in a manner consistent with the ROSC process.² At its plenary meeting in October 2002, the FATF agreed to the conditions set by the two Boards. As a result, Fund/Bank staff began implementation of the pilot program starting on October 15, 2002.³ The Bank/Fund has also coordinated closely with other efforts to provide TA and have greatly enhanced their TA delivery.
4. This paper is divided into six sections. Following the introduction, Section II gives an outline of the pilot program’s contents and includes an overview of the assessments completed,

¹ As part of the action plan endorsed by the IMFC, in December 2002 Fund/Bank staff completed a study on the “Informal Funds Transfer systems: An Analysis of the Informal Hawala System”, which explored how these systems work and the regulatory implications. The study will be published as an occasional paper later this year..

² Another condition was that the FATF not undertake a further round of the noncooperative countries and territories (NCCT) initiative, at least during the period of the 12-month pilot project.

³ On November 15, 2002, the Executive Board of the IMF formally endorsed the methodology and the commencement of the pilot program on a lapse-of-time basis (SM/02/349).

in progress, or planned for the 12-month period of the program. Section III discusses the participation of the FATF and FSRBs in the pilot; Section IV summarizes some of the key substantive findings and procedural lessons drawn from the initial assessments; Section V reviews AML/CFT technical assistance efforts by the Bank/Fund; and Section VI provides an overview of the next steps.

II. AML-CFT ASSESSMENTS AND ACCOMPANYING ROSCs

5. **The pilot program involves two types of assessments, one led by Fund/Bank staff and the other by FATF/FSRBs.**⁴ Independent AML/CFT experts (IAE) are included in Bank/Fund staff-led assessments to evaluate the criteria not assessed by Fund/Bank staff (or experts under their supervision), including criteria relating to the implementation of criminal justice measures and sectors that, while vulnerable to money laundering or terrorism finance, are not of macroeconomic relevance. **To help ensure uniformity of treatment, Bank/Fund staff has agreed to use a set of core assessment documents for both types of assessments, which will be subject to substantive and pro forma reviews.**

A. Outline of Pilot Program

6. **The pilot program employs the methodology under two arrangements: (1) FATF and participating FATF-Style Regional Bodies (FSRBs)-led assessments and (2) Fund/Bank staff-led assessments.** Consistent with the guidance of Bank and Fund Boards, all Financial Sector Assessment Programs (FSAP) and Offshore Financial Center (OFC) assessments include AML/CFT assessments, which can be undertaken under either of the above two arrangements.⁵

7. **Fund/Bank staff-led assessments.** Fund/Bank staff (and experts under staff supervision) assess compliance with all criteria except those relating to the implementation of criminal justice measures and to financial sectors that, while vulnerable to money laundering or terrorism financing, are not of macroeconomic relevance. One or more independent AML/CFT experts (IAE) assess the remaining criteria. The assessment reports reflect the division of responsibility and the IAE sections are in italics to distinguish them from the rest of the report. The substantive work of the IAE is not supervised by Bank/Fund staff and their participation is not financed by the Fund/Bank.⁶

⁴ From October 2002 to October 2003, a number of mutual evaluations by FSRBs will not use the methodology and, hence, will not qualify as assessments under the pilot project.

⁵ Two stand-alone AML/CFT assessments are also part of the pilot. These assessments are being conducted as follow-ups to earlier FSAPs.

⁶ IAEs are required to sign a confidentiality agreement to enable staff to share relevant information with them for the assessment. The IAEs are either selected by staff from a roster of experts (compiled by staff primarily from names submitted by member jurisdictions of the FATF/FSRBs and the

(continued)

8. Review of those parts of the assessment and ROSC completed by staff is undertaken in the same manner as other assessments and ROSCs. Review of the parts completed by the IAE is undertaken by other IAEs. The procedures and execution of IAE reviews are still under discussion with the FATF/FSRBs.

9. **FATF/FSRB assessments.** Officials from FATF/FSRB member jurisdictions and staff from the relevant FATF/FSRB Secretariat will conduct the entire assessment without Fund/Bank staff participation, and in accordance with their respective mutual evaluation procedures. The FATF/FSRBs will complete substantive reviews in the same manner that they now review mutual evaluation reports. Prior to presentation of the ROSC to the Bank/Fund Boards, staff will review FATF/FSRB ROSCs on a pro forma basis for consistency with the underlying assessment report and the ROSC format, but not with respect to the substance of the assessment.

10. **Consistency with the ROSC process.** Staff and the FATF have agreed to employ a core set of assessment documents structured similarly to those used in other standards and codes assessments by the Fund/Bank. Under the ROSC process, the authorities have the right of reply, and documents subject to publication include sections to provide the authorities an opportunity to present their views.

11. **Avoidance of duplication.** Duplication of assessments is being avoided through coordination of assessment schedules between the Bank/Fund and the FATF/FSRBs. In cases where the FATF/FSRB conduct an assessment using the methodology of one of their members, and the member is also undergoing an FSAP, Fund/Bank staff will not undertake a separate assessment and will reflect the results of the FATF/FSRB-led assessment in the FSAP.

12. **Publication policies.** The publication of AML/CFT ROSCs follows current Bank/Fund practice. If the jurisdiction requests, Fund/Bank staff will post the ROSC on their respective websites. The jurisdiction may also publish a Bank/Fund-led detailed assessment with the approval of management. With the approval of the jurisdiction, Fund/Bank staff will make available a Bank/Fund-led detailed assessment of an FATF/FSRB member to the relevant FATF/FSRB Secretariat. Jurisdictions are expected to make available FATF/FSRB-led detailed assessments to Fund/Bank staff.

13. **Review of the pilot program report.** The Fund/Bank Boards agreed that staff would complete a substantive review of experiences with assessments at the end of the pilot program. The review, to be completed in early 2004, would focus *inter alia* on the lessons learned, and the consistency and quality of assessments. It would provide recommendations on how AML/CFT assessments should continue in the context of the ROSC process.

Egmont Group of Financial Intelligence Units) or are selected on the basis of nominations by the secretariats of the FATF/FSRBs.

B. Overview of Fund/Bank AML/CFT Assessments

14. Prior to the launch of the pilot program, using the February and April 2002 preliminary versions of the methodology (which, *inter alia*, did not include criteria concerning the implementation of criminal justice elements), AML/CFT assessments led by Fund/Bank staff/experts were undertaken in 24 different jurisdictions as part of the FSAP and OFC assessments (Table 1).

15. Between 46 and 56 assessments in total are expected to be completed during the pilot period, including at least 36 led by Fund/Bank staff, up to 8 by the FATF, and 12 by the FSRBs. Since the launch of the pilot program, 2 Fund/Bank staff-led assessments have been completed, 20 are underway and a further 14–18⁷ are scheduled to be underway before the completion of the pilot. All Fund/Bank-led pilot program assessments are being undertaken in the context of FSAPs and OFC assessments or are follow-ups to earlier FSAPs. The Fund/Bank staff-led assessments under the pilot program are to be undertaken in jurisdictions in all regions of the world and with varying levels of development; they include G-7 countries; other members of the EU and EU-accession states; and jurisdictions in Central and Eastern Europe, North Africa/Middle East, Sub-Saharan Africa, Central and East Asia, Latin America, and the Caribbean.

16. Fund/Bank staff is sharing the assessment burden: at the end of the pilot, Fund staff will have participated in 26 assessments and Bank staff in 16 to 20 assessments (Table 1).

III. PARTICIPATION IN THE PILOT BY THE FATF, FSRBs, AND THE EGMONT GROUP

17. **Discussions with the FATF/FSRBs on their participation in the pilot program are still underway, with uncertainty about the number of assessments that could be conducted by some FSRBs.** The latest information indicates that the FATF/FSRBs could conduct between 10–20⁸ assessments using the methodology during the pilot program. Planning and executing the pilot program has involved extensive collaboration between the Bank/Fund and the FATF/FSRBs, in particular with respect to the methodology's endorsement; use of core assessment documents; scheduling and staffing of missions; reviewing assessments; and resolving interpretative issues. The FATF-member jurisdictions have provided IAEs for nine assessments and FSRBs have provided or have agreed to provide IAEs for six assessments. In addition, Egmont Group-member FIUs have provided IAEs for two assessments.

⁷ The range reflects uncertainty as to whether the CFATF and GAFISUD will use the methodology for four jurisdictions scheduled for mutual evaluations that are also scheduled for assessments as part of FSAPs.

⁸ Excludes possible mutual evaluations contemplated by ESAAMLG but as yet not scheduled.

Table 1. Fund/Bank-Led AML/CFT Assessments¹

	Pre-Pilot Assessments		Assessments as Part of the Pilot				
	Completed	In Progress	Completed	In Progress	Scheduled		
FSAP	Assessed by IMF Staff/Experts						
	Brazil Luxembourg Sweden Switzerland	Korea	United Kingdom	Hong Kong SAR Japan	Jordan Kuwait Netherlands Singapore		
	Assessed Jointly by IMF and World Bank Staff/Experts						
	Barbados Egypt Hungary Kyrgyz Republic Nigeria Philippines	Cote d'Ivoire Morocco Russia Slovak Republic Ukraine		Bangladesh Honduras Malta Mauritius Oman			
	Assessed by World Bank Staff/Experts						
				Mozambique Romania	Algeria Antigua and Barbuda Dominica Ecuador FYR Macedonia Kenya Grenada St. Kitts and Nevis St. Lucia St. Vincent and The Grenadines Sudan Tanzania		
	OFC	Assessed by IMF Staff/Experts					
		Andorra Marshall Islands Samoa Seychelles Palau Vanuatu	Monaco Netherlands Antilles		Anguilla Bahamas Bermuda British Virgin Islands Guernsey Isle of Man Jersey Labuan Liechtenstein Montserrat Turks & Caicos	Cayman Islands	
		Stand Alone	Assessed by IMF Staff/Experts				
					Israel		
			Assessed Jointly by IMF and World Bank Staff/Experts				
						Czech Republic	

¹By context of assessment (FSAP/OFC/stand-alone) and by staffing of assessments (IMF, World Bank, or joint). All assessments during the pilot include IAE participation. The four countries in bold are scheduled for CFATF or GAFISUD mutual evaluations during the pilot and may request that the assessments use the methodology, in which case these assessments would qualify for the pilot and they would not undergo Bank/Fund staff-led assessments. Excludes Azerbaijan, Germany, and New Zealand, which are scheduled for FSAPs but where the AML/CFT assessments will be undertaken by the FATF and Moneyval.

18. **Financial Action Task Force (FATF).**⁹ Good progress has been made in the Fund/Bank collaboration with the FATF. As noted earlier, in October 2002 the FATF plenary endorsed the methodology and the pilot program and reached agreement with Bank/Fund staff on the core set of assessment documents. FATF members also agreed to identify IAEs for the roster of experts and to provide IAEs for Fund/Bank staff-led missions and, to date, have provided IAEs in nine assessments.

- In the February 2003 plenary, the FATF confirmed that mutual evaluations for Argentina, Brazil, Mexico, Russia, Saudi Arabia, and South Africa (to be conducted jointly with ESAAMLG) will be conducted using the methodology by end-2003. In order to make the pilot exercise more balanced in terms of the number of reviews carried out by various institutions, Fund and Bank management requested that the FATF consider undertaking the AML/CFT assessment of some of their members, which are scheduled for FSAPs during the pilot program. In response, the FATF has agreed, in principle, to undertake assessments of Germany and New Zealand.
- In February 2003, the FATF established a working group on issues relating to the collaboration with the International Financial Institutions (IFI) on the pilot program. This group, which will act as the main point of contact for the FATF with the Bank/Fund, will oversee and coordinate the FATF's participation in the pilot program (including matters related to the IAE's participation) focus on the revision of the methodology following adoption of the revised FATF Recommendations, and contribute towards an evaluation of the pilot program. The working group is currently considering a Fund/Bank draft protocol on the role of FATF/FSRBs in the review of IAEs in Bank/Fund-led missions, as well as issues of interpretation of the methodology.

19. Bank/Fund staff is participating in the FATF discussions on the revision to the FATF 40+8 Recommendations. The FATF is in the process of finalizing the revisions, which are currently expected to be completed and adopted by the FATF in June 2003. Both Fund/Bank-led and FATF/FSRB-led assessments will continue to use the current methodology throughout the pilot period. However, once the revisions to the FATF 40+8 are finalized, staff will collaborate with the FATF and FSRBs on revising the methodology for use in the post-pilot period. Staff will prepare a report for the Bank and Fund Executive Boards on the revised FATF Recommendations and on the revised methodology.

⁹ Argentina, Australia, Austria, Belgium, Brazil, Canada, Denmark, European Commission, Finland, France, Germany, Greece, Gulf Co-operation Council (Bahrain, Kuwait, Qatar, Sultanate of Oman, Saudi Arabia, and the United Arab Emirates), Hong Kong SAR, Iceland, Ireland, Italy, Japan, Luxembourg, Mexico, Kingdom of the Netherlands, New Zealand, Norway, Portugal, Singapore, Spain, Sweden, Switzerland, Turkey, United Kingdom, and the United States.

20. **Asia Pacific Group on Money Laundering (APG).**¹⁰ The APG will consider adoption of the methodology and participation in the pilot at its May 2003 annual plenary. In preparation for this meeting, the APG Secretariat has canvassed its members on the methodology's use, so far with favorable responses. Operational issues on pilot participation continue under discussion. The APG Secretariat has agreed to identify IAEs for Fund/Bank staff-led assessments on a case-by-case basis, and has already identified IAEs in one assessment and is in the process of identifying IAEs in two others. The APG members are providing IAEs in these cases.

21. **Caribbean Financial Action Task Force (CFATF).**¹¹ At a special ministerial meeting in January 2003, the CFATF decided not to join the pilot program at that time, in part over concern that they had not been sufficiently consulted on the drafting of the methodology. However, they took note of the fact that the methodology would be used in the FSAP and OFC assessments of its members. Subsequent to the January meeting, the president of the CFATF requested that the membership consider whether members scheduled both for FSAP assessments and CFATF mutual evaluations (St. Kitts and Nevis, St. Lucia, and St. Vincent and the Grenadines) could request that the mutual evaluations use the methodology, which would avoid duplication of assessments. This matter is still under consideration by CFATF. The CFATF members have provided IAEs in two assessments, and the CFATF Secretariat has agreed to provide an IAE for a further assessment.

22. **Grupo de Acción Financiera de Sudamérica (GAFISUD).**¹² At its December 2002 plenary meeting GAFISUD endorsed the use of the methodology for its second round of mutual evaluations, which start after July 2003. Previous to GAFISUD's endorsement, Bolivia was scheduled both for a first-round mutual evaluation and an FSAP. The authorities requested that GAFISUD use the methodology in their mutual evaluation so that they would not have to have to undergo a second Fund/Bank staff-led assessment as part of the FSAP. GAFISUD concurred, and a draft ROSC has recently been received by staff. GAFISUD's December plenary concluded that it would be inequitable to require the remaining unevaluated first-round participants (Chile, Ecuador, Paraguay, and Peru) to undergo a different evaluation procedure than that applied to members already evaluated (except Bolivia); therefore, it will continue the first round using current procedures. However, the

¹⁰ Australia, Bangladesh, Cook Islands, Fiji, Hong Kong SAR, India, Indonesia, Japan, Macao SAR, Malaysia, Marshall Islands, Nepal, New Zealand, Niue, Pakistan, Republic of Korea, Palau, Philippines, Samoa, Singapore, Sri Lanka, Taiwan Province of China, Thailand, United States, and Vanuatu.

¹¹ Anguilla, Antigua and Barbuda, Aruba, Bahamas, Barbados, Belize, Bermuda, British Virgin Islands, Cayman Islands, Costa Rica, Dominica, Dominican Republic, Grenada, Guatemala, Guyana, Haiti, Honduras, Jamaica, Montserrat, Netherlands Antilles, Nicaragua, Panama, St. Kitts and Nevis, St. Lucia, St. Vincent and the Grenadines, Suriname, Trinidad and Tobago, Turks and Caicos Islands, and Venezuela.

¹² Argentina, Bolivia, Brazil, Chile, Colombia, Ecuador, Paraguay, Peru, and Uruguay.

plenary did not object to the continued use of the methodology in mutual evaluations on a voluntary basis, and staff is following up to explore this option with the remaining jurisdictions.

23. **Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures (Moneyval).**¹³ At its December 2002 plenary, Moneyval endorsed the use of the methodology with respect to the first round of mutual evaluations of countries newly joining Moneyval (Armenia, Azerbaijan, and Bosnia-Herzegovina) and to take up the methodology in Moneyval's third round of mutual evaluations starting in 2004. Because the plenary concluded that it would be inequitable for the unevaluated second-round participants (Albania, Georgia, Moldova, Russia, San Marino, and Ukraine) to undergo a different evaluation procedure than that applied to members already evaluated, Moneyval will continue their second round using their current procedures.

24. **Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG).**¹⁴ There has not been an ESAAMLG ministerial council meeting since the commencement of the pilot in November 2002, but the question of ESAAMLG's adoption of the methodology and participation in the pilot is expected to be raised at the next council meeting in August 2003. The ESAAMLG Secretariat, however, has indicated its support for using the methodology in mutual evaluations, and six mutual evaluations are contemplated but not yet scheduled. The secretariat has also offered to identify IAEs.

25. **Offshore Group of Banking Supervisors (OGBS).**¹⁵ The OGBS has endorsed the use of the methodology. However, the OGBS has not scheduled any mutual evaluations during the period of the pilot.

26. **The Egmont Group of Financial Intelligence Units.**¹⁶ While not an FSRB and, therefore, not a full participant in the pilot program, the Egmont Group has agreed to help identify IAEs for the roster of experts. Two IAEs have been selected from the Egmont Group nominees.

¹³ Formerly known as the PC-R-EV. Albania, Andorra, Armenia, Azerbaijan, Bulgaria, Croatia, Cyprus, Czech Republic, Estonia, Georgia, Hungary, Latvia, Liechtenstein, Lithuania, Malta, Moldova, Poland, Romania, Russian Federation, San Marino, Slovakia, Slovenia, Former Yugoslav Republic of Macedonia, and Ukraine.

¹⁴ Botswana, Kenya, Lesotho, Malawi, Mauritius, Mozambique, Namibia, Seychelles, South Africa, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.

¹⁵ Aruba, Bahamas, Bahrain, Barbados, Bermuda, Cayman Islands, Cyprus, Gibraltar, Guernsey, Hong Kong SAR, Isle of Man, Jersey, Mauritius, Netherlands Antilles, Panama, Singapore, and Vanuatu.

¹⁶ A list of Egmont Group members can be found at http://www1.oecd.org/fatf/Ctry-orgpages/org-egmont_en.htm.

IV. PRELIMINARY OBSERVATIONS FROM FUND/BANK STAFF-LED ASSESSMENTS

27. The initial Fund/Bank-led assessments under the pilot program have provided a number of observations on the weaknesses in AML/CFT regimes, as well as areas where the assessment procedures could be strengthened.

A. Substantive Observations

28. While it is premature to draw firm conclusions from the pilot assessments as a whole, the assessments completed or underway do lead to some preliminary observations. While most jurisdictions assessed have adopted some AML/CFT measures, there is considerable variation among AML/CFT systems and, in many jurisdictions (and most non-industrialized jurisdictions), key weaknesses still remain, particularly for CFT. In most cases, the authorities have set compliance with the FATF 40+8 as a key priority and are in the process of improving their AML/CFT systems to comply with those standards. Nevertheless, implementation is often hindered by the lack of skills, legal and financial sector infrastructure, and budgetary resources. The pilot program observations with respect to the vulnerabilities in the AML/CFT regimes are being reflected in the intensified IMF/World Bank technical assistance (see Section VI).

29. Some of the preliminary observations are:

- **While a number of jurisdictions have made progress in implementing legal frameworks for AML/CFT, the legislation and other forms of rule-making adopted are often based on older models that do not include CFT measures.** As a result, there is often a need for further extensive amendments. In a number of jurisdictions, the Palermo Convention against Transnational Organized Crime and the UN Convention for the Suppression of the Financing of Terrorism had not yet been ratified and implemented, and measures of the UN Security Council Resolutions relating to the financing of terrorism are not in place.
- **A significant number of jurisdictions has focused primarily on rule-making with the implementation of rules lagging behind.** For example, in a number of jurisdictions, the AML/CFT on- and off-site supervisory systems were insufficiently developed and often had inadequate resources.
- **In a small number of jurisdictions, FIUs still have to be established; while in others, the FIUs in place do not play a sufficient role in the analysis of financial information, including suspicious transaction reports (STRs).** The FIUs are not always structurally adequate and, although they are nominally granted core responsibilities for collecting, analyzing, and disseminating STRs, they may not have the necessary supporting powers to carry out these functions effectively. Suspicious transaction reporting is unevenly implemented and the integration of the FIUs in many jurisdictions is hampered by institutional and structural conflicts, as well as by ongoing issues with banking and professional secrecy.

- **Several jurisdictions exhibited inadequate and ineffective cooperation**, both domestically (between the FIU and the supervisory agencies, the FIU and law enforcement, and among supervisory authorities) and with foreign authorities (whether law enforcement, FIUs, or supervisory authorities). With respect to international cooperation, in a number of cases, comprehensive mutual legal assistance legislation and/or additional multi- and bilateral agreements were needed.
- **Implementation of AML/CFT regimes beyond the traditional sectors was another area where weaknesses were identified.** In some cases, nonbank financial institutions, such as insurance, securities market intermediaries, and trust and company-service providers, were not yet entirely covered by AML/CFT legislation, or were subject to more limited requirements. Preventive measures outside of the banking sector were often weak, especially with respect to guidance on implementation, training, and outreach; onsite examinations; and use of supervisory sanctions and enforcement.
- **In many jurisdictions, the quality of STRs was questioned by the assessor**, especially outside of the banking sector. The internal systems for monitoring transactions and for identifying suspicious transactions were sometimes rudimentary, and compliance officers were sometimes lacking in necessary experience. In a number of jurisdictions, there was little effective implementation of fit-and-proper testing for the directors/managers, controlling shareholders, and senior staff, particularly outside of the banking sector.

B. Procedural Issues

30. Fund/Bank-led missions are generally composed of two Bank/Fund staff/experts and one IAE, and typically take two weeks. The core assessment documents are used, and a draft version of the detailed assessment and ROSC is usually presented to the authorities at the conclusion of the mission. Reviews of the drafts are undertaken before finalization (as noted in Section II). Because Fund/Bank staff has so far received only one draft ROSC from an FATF/FSRB assessment, staff has insufficient operational experience to comment on the procedures for review, providing feedback, and finalization of these documents.

31. A few issues relating to the assessment process have been noted:

- The IAE's participation has generally been a valuable part of the assessment and IAEs have been identified for nearly all Bank/Fund-led assessments. A few authorities have had difficulty in financing the IAE's participation, releasing the IAE for the full mission, and/or providing time after the mission for the IAE to complete the work. These matters will be discussed further with the FATF in the context of the recently established FATF Working Group (see Section III).
- AML/CFT assessments require significant and detailed preparatory work, and the depth and quality of the assessment produced depends largely on sufficient time for

adequate pre-mission preparation. In a few cases, the AML/CFT component of the FSAP was delayed to provide the jurisdiction with additional time to allow this preparation to occur.

V. INTENSIFIED BANK/FUND TA/CAPACITY-BUILDING DELIVERY

32. **The Bank/Fund staff continues to intensify their efforts to assist countries to develop their AML/CFT infrastructure and capacity.** While Bank/Fund staff-led assessments continue to be a key source of the identification of TA needs, the FATF/FSRBs, other organizations, and member governments have assumed a more active role in identifying TA needs, resulting in an increasing number of TA requests from these sources. Staff has also worked with these organizations and governments to identify additional sources of TA delivery. A key element of this work has been the development of a global database that links the FATF/FSRBs and the donor community in a network, which is intended to function as a clearinghouse to match demand and supply for TA.

A. Overview of TA Delivery

33. **Since September 2001, the Bank/Fund has completed, initiated, or agreed to deliver direct TA to 40 jurisdictions and 12 regional TA projects, and have identified potential direct TA to 11 jurisdictions and 5 regional projects, for a total of direct TA to 51 jurisdictions and 17 regional projects.** Project priorities are being guided by recommendations made from a number of sources including, *inter alia*, AML/CFT assessments, FATF/FSRBs (which can identify TA needs as priority on the database), and the Counter-Terrorism Committee of the UN (which is suggesting that countries that do not meet UN Security Council Resolution 1373 make any requests for TA in areas that fall within Fund/Bank areas of expertise directly to the Fund/Bank).

- **Individual country projects.** About half of the individual country TA projects involved advising or legislative drafting assistance, with a small but increasing proportion involving terrorist-financing issues. A number of new projects being initiated or identified relate to strengthening the financial, regulatory, and implementation framework for AML/CFT.
- **Regional TA projects.** Regional TA has been provided in the form of seminars/workshops to countries in Africa on banking/AML/CFT legislation, supervision, and assessments; in Asia on financial sector AML/CFT supervision; in the Caribbean on legislative drafting and offshore financial sector supervision; in the Pacific on legislative drafting; and in the Balkans on the establishment of financial intelligence units. In addition, the Bank/Fund has helped organize regional workshops funded under

the Financial Sector Reform and Strengthening Initiative¹⁷ for South American countries on domestic, regional, and international AML/CFT coordination, and for Central Asia and Eastern European countries on FIUs and other aspects of AML/CFT infrastructure.

Table 2. Jurisdictions Benefiting from Bank/Fund AML/CFT Technical Assistance
September 2001 through February 2003

Status of TA Project	TA Provided to Individual Jurisdictions	TA Provided Regionally	
		Number of Projects	Number of Jurisdictions Participating
Identified	11	5	83
Initiated/Agreed	12	5	58
Completed	28	7	67
<i>Totals</i>	<i>51</i>	<i>17</i>	<i>208 1/</i>

1/ Some jurisdictions benefit from more than one project; this represents an aggregated total of projects.

- Global Dialogue Series.** The Fund/Bank continue to raise awareness and dialogue on AML/CFT issues through the Global Dialogue Series, a live video conference that links experts and high-level country officials. Two dialogues were held for the ECA and the LAC regions during the first semester of 2002. More recently, additional dialogues have been held covering more than 30 countries in four regions: Africa, North Africa and the Middle East, South Asia, and East Asia and the Pacific. Plans are underway for similar dialogues to be held during 2003.
- Planned training and capacity-building projects.** Projects being considered for the next financial year include three regional legislative drafting workshops focusing on terrorism financing for Central Asia, Northern/Saharan Africa, and South America; AML/CFT training for financial sector supervisors in Central America; training on establishment of FIUs for Central and West Africa, and for East Asia/South East Asia; and training for financial sector regulators and assessments for Eastern and Southern Africa. Other regional projects are being planned for Latin America, Central Asia, Asia/Pacific, Northern/Saharan Africa, and other African countries.

B. TA Coordination

34. **The Bank/Fund continue their collaboration with key external partners in developing and reinforcing mechanisms for coordinating AML/CFT technical assistance.** Efforts continue to further develop a mechanism to facilitate the identification of

¹⁷ A multi-donor independent trust aimed at promoting robust and diverse financial sectors in developing and transition countries.

TA requests for the coordination of technical assistance and to avoid duplication. This is important in view of the continuous increase in TA requests flowing from the ongoing assessment program, and of the need to use scarce resources and skills efficiently. These efforts culminated with the launch of a global database in December 2002, which links FSRBs, donors, and TA providers. The database is accessible on the World Bank website, which the Bank will maintain for an initial period of two years. It provides a mechanism for FSRBs to register the TA requests of their members, and to inform donors of such requests to track key priority TA needs by country, region, and globally, and donor responses.

35. Since the launch of the database in December, all of the FSRBs have provided information on TA needs of their members. This information has been entered into the database and work continues to update and refine the TA requests to assist potential donors in responding. So far, bilateral donors have apparently not made extensive use of the database, and further follow-up with bilateral donors is planned. Table 3 summarizes the TA requests entered into the database.

Table 3. TA Requests by Region and Type

TA Category/Region	APG	CFATF	ESAAMLG	GAFISUD	MONEYVAL	TOTAL
AML/CFT laws	12	29	7	3	6	57
CFT laws only	1	21	2	0	2	26
FIU	16	13	11	8	12	60
Law enforcement	16	29	2	5	12	64
Financial sector	14	28	5	6	12	65
International cooperation	0	29	0	0	4	33
Awareness raising	13	29	2	0	6	50
Other	1	4	4	0	1	10
Total	73	182	33	22	55	365

Source: Fund/Bank TA coordination database.

Responses to TA requests by region: CFATF 4, ESAAMLG 2, and Moneyval 2

VI. NEXT STEPS

36. The following steps are to be undertaken during the remainder of the 12-month pilot period, which ends in October 2003.

- **Implement assessment program.** Staff will continue with implementation of the pilot-program-assessment plan as indicated in Table 1. Staff will continue to work with the FATF and FSRBs to encourage their participation in the program and avoid duplication in assessments.
- **Implement TA delivery program.** Staff will continue with implementation of the TA delivery plan, as described in Section V. Further outreach concerning use of the global database will also be a priority.

- **Prepare a report on the pilot program.** Staff will work with the FATF and participating FSRBs to prepare the report on the pilot program, with the expectation that it will be completed in early 2004. Staff will revert to the Executive Boards on the continuation of assessments and their modalities following the end of the pilot program.
- **Report on revision of FATF Recommendations and begin work on revising the methodology.** Staff will continue to participate in the process of finalizing the revision of the FATF Recommendations (currently expected in June 2003). Once the revisions are finalized, staff would collaborate with the FATF and FSRBs on drafting proposed revisions to the methodology for use in the post-pilot phase. Staff will prepare a report for the Bank and Fund Executive Boards on the revised FATF 40 and on the revised methodology.