

**PROGRAM
DOCUMENT**

April 2009



Topical Trust Fund

Anti-Money Laundering / Combating the Financing of Terrorism (AML/CFT)

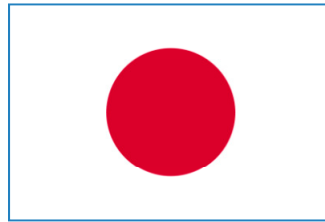
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**ANTI-MONEY LAUNDERING AND COMBATING THE
FINANCING OF TERRORISM (AML/CFT)
—A MULTI-DONOR TRUST FUND—
(MARCH 31, 2009)**

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EXECUTIVE SUMMARY**ANTI-MONEY LAUNDERING AND COMBATING THE FINANCING OF TERRORISM (AML/CFT)
—A MULTI-DONOR TOPICAL TRUST FUND—**

The Fund is seeking to create a Multi-Donor Trust Fund to support its well-regarded AML/CFT technical assistance and analytical work. The trust fund would provide donors interested in supporting this topic an opportunity to leverage on the Fund's proven technical expertise and high traction of technical assistance delivery, while facilitating coordination among donors and TA providers— as called for in the Paris Declaration on Aid Effectiveness. A funding volume of about US\$6 million annually is sought over the period May 2009 through April 2014.

Robust AML/CFT controls are a necessary condition for countries' integration into the global financial system, and improving worldwide compliance with AML/CFT standards benefits the entire international financial system. Strengthening country AML/CFT regimes is, therefore, not only in the interest of a given beneficiary country but of the international financial system and the international community as a whole. The Fund is well positioned to make a unique and important contribution to the fight against money laundering and the financing of terrorism due, in part, to its global reach and perspective, its financial sector expertise and focus, and its tradition of empirically based policy advice.

The Fund's AML/CFT technical assistance has a strong record of achievement and has been instrumental in assisting members to strengthen their AML/CFT legal, regulatory and institutional frameworks.¹ Demand for Fund TA has been high and sustained. A range of countries in Eastern Europe, Asia, South and Central America, and Africa have benefited from Fund assistance. The Fund's expertise as well as its impartiality and objectivity have been critical, especially in assisting countries and jurisdictions under international scrutiny such as Iran, Myanmar, Turkmenistan, and the West Bank and Gaza. Examples of the Fund's recent TA contributions include assistance in drafting new or revised AML/CFT frameworks, the establishment of Financial Intelligence Units (FIUs), new or improved on-site inspection procedures for banks and regulators, pre-assessment TA to familiarize countries with the AML/CFT standard and to stimulate policy-level engagement, and post-assessment TA to address identified weaknesses. The Fund has also contributed significantly to the global assessment architecture by helping develop assessor training materials and training assessors. The Fund's analytical work has strengthened its TA and assessment work, while allowing the Fund to make significant intellectual contributions to the global AML/CFT community.

¹ The Fund's AML/CFT work began in 2001, following a call from G7 Finance Ministers in 2000. Since January 2004, the Fund has delivered 370 TA missions to over 150 countries in addition to a significant number of HQ-based TA projects.

The proposed multi-donor AML/CFT Topical Trust Fund (TTF) will enable the IMF to realize efficiencies from a consolidated TA strategy and improved donor coordination.

The Trust Fund would provide predictable levels of support and thus enable the Fund to further develop coordinated and comprehensive responses to the risks associated with the globalization of financial markets, permit Fund members and other recipients to benefit from sorely needed customized technical expertise and assistance, and support focused, high quality analytical work.

The resources of the Trust Fund will be used on a strategic and prioritized basis. The Trust Fund would be guided by a set of strategic principles, including commitments to focus on systemically important countries, middle income countries and countries with significant money laundering (ML) or financing of terrorism (FT) risks and on areas related to the Fund's core competencies—i.e., overall system design, financial sector regulatory issues, law reform, governance, and institution building. The Trust Fund would strive to balance bilateral programs for systemically important members with regional approaches and would aim to enhance TA delivery through (i) long-term planning with emphasis on fostering closer relationships with country officials and area departments, (ii) developing regional and country strategies, (iii) combining staff expertise with short and long-term field experts to optimize skill mixes and realize savings on travel cost, and (iv) implementing strict quality control measures.

TA will be delivered mainly through longer-term projects integrating recipients' needs and their implementation capacity. To enhance accountability and effectiveness and in line with the Fund's new Results Focused Management System (RFMS) approach, TA under the Trust Fund will be organized into specific projects, with clear pre-specified objectives, outputs, and indicators against which progress will be measured. Fund staff has developed the following six AML/CFT TA modules that can be delivered sequentially or separately as part of a customized TA strategy to be developed in concert with recipient countries.

- I. Diagnostic
- II. National Strategies and Coordination
- III. Risk Assessment
- IV. Legislation
- V. Structures and Tools
- VI. Effectiveness and Efficiency

Work under the Trust Fund will be guided by a Steering Committee (SC), composed of donor representatives and Fund staff. Other interested parties could be invited as observers. The SC would be expected to meet annually and be chaired by a donor representative, with Fund staff serving as a Secretariat. The SC's function would be to provide strategic guidance and contribute to the setting of policies and priorities, including through the endorsement of annual work and financial plans and the review of progress under the work plan and of performance under the program.

I. BACKGROUND

A. Context

1. **Highly organized, powerful, and increasingly mobile criminal activity has spread to every corner of the world; its myriad forms, including international terrorism and corruption, reveal the “dark side of globalization.”** By increasing interdependent relationships among peoples of the world, globalization has created great wealth. This same interdependence, however, also constitutes a vulnerability that opportunistic criminals, corrupt officials, and terrorists can and do exploit with devastating effects. The direct and indirect costs and impacts of crime, corruption, and terrorism, though difficult to measure with precision, constitute a significant impediment to economic growth, especially in economies whose regulatory, supervisory, governance and judicial regimes lack rigor.

2. **Laundering the proceeds of crime and moving and concealing funds used to support terrorists, has itself become a highly specialized illicit industry that routinely involves cross-border financial intermediation.** Money launderers and terrorist financiers aggressively exploit loopholes and differences among national AML/CFT systems and move their funds to or through jurisdictions with weak or ineffective legal and institutional frameworks. Even local or regional criminal or terrorist groups may use international and extra-regional financial services in order to conceal their true designs. At the same time, government policy makers have learned that “following the money” and separating criminals, corrupt officials, and terrorists from their money and other assets is one of the most effective ways to limit their destructive power. To do this effectively in an increasingly globalized market for financial services, however, requires a coordinated international response.

3. **In an increasingly interconnected world, financial integrity and financial stability are closely linked.** Money laundering and terrorist financing activities have the potential to undermine the soundness and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows. Moreover, money laundering and terrorist financing problems in one country can quickly spread to other countries in the region or in other parts of the world. The integrity of national financial systems is thus essential to financial sector and macroeconomic stability both on a national and international level.

4. **The Fund has taken its place alongside other international and bilateral agencies in the fight against money laundering and terrorist financing.** In 2000, the G-7 Finance Ministers called on the Fund to expand its work in the area of anti-money laundering. In response, the Fund has developed a comprehensive AML/CFT program. Currently, the Fund plays a crucial role in the global AML/CFT architecture. This architecture includes the Financial Action Task Force (FATF)—the standard setter—the FATF-Style Regional Bodies (FSRBs), the World Bank, and various agencies of the UN. The Fund collaborates with all of these institutions in its work on AML/CFT.

5. **The cornerstone of the Fund’s work on AML/CFT is its contribution to the assessment of members’ AML/CFT systems under the uniform methodology endorsed**

by the Fund's Executive Board, the FATF, and the FSRBs. Since the formation of the Fund's specialist AML/CFT unit in 2001, the Fund, either solely or in partnership with the Bank or the FATF, has delivered 66 assessments under the FATF standard. Closely related to and often building upon needs identified during assessments, the Fund has provided practical technical assistance to members seeking to improve their AML/CFT regimes. Since January 2004, the Fund has delivered 370 technical assistance missions to over 150 countries in addition to a significant amount of HQ based technical assistance projects. As discussed further in Section D below, and even though there is much work still to be done, this specialized and targeted assistance has resulted in significant improvements in AML/CFT regimes. In support of its assessment and TA work, the Fund has also conducted policy-relevant analytical work and reflected the results of this work in the deliberations of the FATF and FSRBs, presentations to significant conferences, and publications on implementing various AML/CFT measures.

6. **In order to maintain and further strengthen the Fund's AML/CFT technical assistance and continue to conduct relevant analytical work for the benefit of the AML/CFT community, the Fund's management is proposing the establishment of a dedicated AML/CFT trust fund.** The purpose of this document is to outline the proposed trust fund. The remainder of Section I will discuss the objectives and outcomes of these efforts before describing the Fund's approach to AML/CFT in Section I-C. Section I-D will review the Fund's achievements in AML/CFT TA, analytical work and policy development and will describe how the trust fund proposal will enable the Fund to carry its AML/CFT vision and strategy forward. Section II-A will describe delivery modality using project-based modules. Section II-B will discuss the sustainability of the Fund's AML/CFT TA and potential obstacles to TA initiatives. Section II-C will lay out the Fund's resource needs to finance its program of AML/CFT TA, including relevant analytical work, over the next five fiscal years. Section III will discuss the governance and operational arrangements and Section IV will discuss financing and administrative issues.

B. Objectives and Outcomes of the Fight Against Money Laundering and Terrorist Financing

7. **The international community's fight against money laundering and the financing of terrorism is multi-faceted. Among the goals of this effort are:**

- Protecting the integrity of the international financial system;
- Cutting off the resources available to terrorists; and
- Making it more difficult and costly to profit from criminal activities.

8. **Putting in place an effective AML/CFT regime offers many benefits to the global financial system as a whole and to individual countries.**

Global Benefits

9. **AML/CFT controls are necessary to protect the integrity and stability of the international financial system.** Effective AML/CFT regimes can forestall the contagion effects that may arise from money laundering or terrorist financing in particular countries or regions. A truly effective AML/CFT framework, however, requires every country to put in place a robust system of AML/CFT controls.

10. **Improving worldwide compliance with AML/CFT standards benefits the entire international financial architecture.** Strong AML/CFT controls increase public confidence in financial institutions and national systems and promote the integration of markets and investments through cross-border financial intermediation and direct foreign investment. Establishing a robust AML/CFT regime is, therefore, not only in the interest of a given beneficiary country but of the international financial system and the international community as a whole.

Benefits for Recipient Countries

11. **Robust national AML/CFT frameworks benefit individual countries in a number of different ways.** They enhance their financial sector integrity and stability and their integration within the global financial marketplace. They also contribute to more transparent governance and effective fiscal administration.

12. **An effective AML/CFT framework is a necessary condition for the complete integration of a country's financial system into the global financial system.** Financial institutions in many parts of the world are often reluctant to enter into business lines, markets, or relationships with particular customers or institutions based in countries that are perceived to pose serious money laundering or terrorist financing risks. By putting in place effective AML/CFT frameworks with which their own financial institutions must comply, national authorities effectively help their financial institutions broaden their links with counterparts abroad. Conversely, the failure of a country to develop a robust AML/CFT framework undermines the ability of its financial institutions and the country itself to partner with more developed financial centers or participate in global payments systems. To be fully integrated into international financial and payments systems, countries and jurisdictions, therefore, increasingly need to demonstrate that they have effective AML/CFT arrangements in place and that those arrangements continue to conform to the standards as they are developed and enhanced.

13. **A robust AML/CFT framework can help promote good governance.** Effective AML/CFT controls require legal, regulatory, and institutional frameworks that promote financial transparency and encourage the rule of law. In addition, anti-corruption standards rely upon and emphasize the importance of such AML controls. AML/CFT regimes form part of the broader effort to fight crime and corruption by providing another venue to prosecute criminals and corrupt officials and prevent their benefiting from the proceeds of their acts.

14. **AML/CFT controls can also contribute to improved revenue collection.** Although many other factors affect the scope of tax evasion, it is often conducted through the same mechanisms as money laundering. AML preventive measures, such as customer due diligence, identification of beneficial ownership of financial assets and suspicious transaction reporting, can impede tax fraud and evasion.

Main Outcomes

15. **As more robust and effective AML/CFT regimes develop in individual countries and globally,** these strengthened frameworks will be reflected in a number of different ways, including through:

- National and agency-specific AML/CFT strategies;
- Comprehensive laws and regulations;
- Effective and efficient institutional infrastructure for:
 - Financial institution supervisors;
 - Financial intelligence units; and
 - Strengthened international cooperation by national regulators and law enforcement agencies.

C. The Fund's Approach

16. **The Fund is well positioned to make a unique and important contribution to the fight against money laundering and the financing of terrorism.**

- **Global perspective:** As an international institution, the Fund has extensive cross-country experience and a global perspective and reach.
- **Collaborative institution:** With near universal membership, the Fund is a natural forum for sharing information, developing common approaches to issues, and promoting desirable policies and standards—all of which are critical in combating ML/FT.
- **Institutional commitment:** Recognizing that money laundering and terrorist financing activities have the potential to undermine financial stability, the Fund's Executive Board has endorsed the FATF standard as part of the Fund's Financial Sector Assessment Program (FSAP) and firmly supports the Fund's AML/CFT program.
- **Financial sector expertise and focus:** As the Fund approaches AML/CFT issues from the perspective of financial sector stability—by contrast to other organizations which emphasize law enforcement or development perspectives—the Fund's work on

these issues, including its TA and analytical work, focuses on areas in which it has a comparative advantage as an international financial institution.

- **Specialized AML/CFT Unit:** The Fund has a multi-disciplinary unit solely dedicated to work on AML/CFT issues. Comprised of specialized financial sector experts and legal professionals, the Financial Integrity Group delivers high levels of professional experience and advice in a confidential manner targeted at vulnerable areas of economic activity.
- **Integrated approach:** The Fund's AML/CFT work is integrated with its other core surveillance and program activities, facilitating the identification of country needs and enhancing the effectiveness of TA. Coordination with related Fund TA (i.e., financial and fiscal sectors and governance) makes full use of synergies.
- **Commitment to full coordination:** The Fund makes every effort at fully coordinating its AML/CFT work with other donors and relevant bodies by utilizing well-established communication channels and forums.

17. The Fund contributes to the international fight against money laundering and the financing of terrorism in several key areas.

- Financial sector surveillance, in particular, through assessments of countries' compliance with the FATF standard;
- Analytical work and policy development on AML/CFT issues; and
- Technical assistance to countries seeking to strengthen their AML/CFT regimes.

18. Assessments of countries' compliance with the FATF standard is the cornerstone of the Fund's AML/CFT program. As a component of the FSAP, AML/CFT assessments are integrated into the Fund's broader financial sector surveillance agenda, and the Fund recognizes assessments conducted by other assessor bodies pursuant to the standard methodology. Fund staff assessments focus particularly on countries that are systemically important or that present particularly significant ML or FT risks. The Fund's staff expertise in these related areas, and its professional cadre of assessors and reviewers, has helped ensure systematic, uniform, and accurate assessments of more than 80 countries' AML/CFT systems since the adoption of the most recent assessment methodology in 2004. In addition to review of assessments conducted by other bodies, the Fund regularly trains new assessors and plays a pivotal role in ensuring quality and consistency of reports by all assessing bodies. The Fund made significant contributions to the drafting and finalization of the new 2004 methodology and is intimately involved in methodology refinements on an ongoing basis. Assessments under the international standard are critical in developing programs to assist member countries in addressing identified shortcomings.

19. The assessment program also supports the Fund's increasing focus on financial sector stability. The development of a truly effective AML/CFT regime that conforms to this

standard requires a significant commitment of resources and effort by a country's authorities. In response to the many different ways in which money laundering and terrorist financing can threaten a country's financial system, however, the FATF standard contemplates an extremely broad-ranging response from government and private sector entities. Demand for technical assistance in this area has, therefore, been quite strong over the past few years.

20. **Analytical work is another important Fund initiative.** The Fund has a tradition of providing technical and policy advice that is solidly grounded in empirically-based analytical work which is particularly needed in the AML/CFT area. The Fund's analytical work program supports its assessment and TA work and is presently focused on the relationship between AML/CFT risks and macroeconomic stability and the identification and assessment of risks for the purposes of constructing optimal AML/CFT frameworks within the context of the existing international standards.

21. **Technical assistance represents the practical follow-up to the Fund's assessment and analytical work.** The Fund provides technical assistance to countries in a number of important areas, including general advice to the authorities on AML/CFT strategy and coordination, the drafting of AML/CFT legislation and regulation, the establishment and operation of Financial Intelligence Units, and the development of specialized AML/CFT supervisory units, manuals, and procedures. Fund staff are currently working with several countries to advance their understanding of money laundering risk so that they can better allocate scarce resources.

22. **Collaboration with other organizations is critical in AML/CFT.** The Fund recognizes the critical role played by the FATF and FSRBs and has worked closely and successfully over the past years with them as well as with bilateral and other multilateral donors in TA delivery, to maximize efficiencies and comparative advantage and to avoid duplication of efforts. In many instances, the Fund has worked in direct partnership with a number of these bodies in executing joint initiatives and projects, often utilizing Fund resources such as the Fund's regional training centers. The Fund will continue to undertake its AML/CFT TA work in collaboration with a wide range of partners, including:

- **FATF and FSRBs**
- **Multilateral providers** including the World Bank, the United Nations, the Asian Development Bank, and the Organization of American States. The Fund's relationships with the World Bank and the UN are particularly close; and
- **Bilateral TA providers.**

23. **From the comparative advantage standpoint it should be observed that there are significant differences between the Fund and these other TA providers.** First of all the level of expertise is different, especially with reference to financial sector supervision and financial intelligence unit-related TA. Secondly, there is a significant difference regarding the potential recipients of TA and the areas in which these donors have traditionally operated. The World Bank traditionally provides TA across a broad range of AML/CFT subject-matter

but focuses its attention on low income and low capacity countries; in addition to that the Bank faces some constraints in operating in countries that do not borrow from it. United Nations TA focuses on legal reforms to implement UN conventions and on the development of criminal justice capacity. The Asia Development Bank and the Organization of American States target specific macro-geographical areas, as opposed to the global perspective approach that the Fund can bring. If compared with bilateral donors the IMF enjoys a broader perception of objectivity and evenhandedness and does not face geographic or political constraints.

24. Potential overlaps or duplication in the delivery of TA can be managed effectively through the Fund’s coordination efforts with these other TA providers and donors. In particular, the SC can provide the flexibility and ability to ensure mechanisms for coordination are effective, timely and targeted. At the global level it is contemplated that invitations will be extended to other donors (e.g., the World Bank, the UNODC Global Program on Money Laundering) to become observers at SC meetings from time to time as the need demands. In addition, the Fund’s excellent network of contacts and outreach to global providers allows the Fund to maintain a dynamic knowledge base of current and planned TA by other donors. On a regional basis, the Fund will continue its strong association with FSRBs including attendance at Donor and Provider forums during plenary meetings to ensure technical assistance is not only coordinated but sequenced and takes into consideration regional and international developments. At the national level, the Fund’s expertise in the field utilizing local experts backed up by Fund staff helps to maintain high visibility and strong contacts with other ‘on the ground’ TA delivery agencies. The Diagnostic module described below provides further mechanisms for ensuring donor collaboration and coordination.

D. The Fund’s Achievements in AML/CFT TA

25. The Fund’s AML/CFT TA program over the last few years has delivered positive and tangible results in countries that had not previously addressed financial integrity issues in a meaningful way. A range of countries in Eastern Europe, Asia, South America, and Africa have benefited from Fund assistance. The Fund’s expertise as well as its impartiality and objectivity have been critical, especially in assisting countries and jurisdictions under international scrutiny such as Iran, Myanmar, Turkmenistan, and the West Bank and Gaza.

26. Examples of the Fund’s TA contributions include:

- Assistance in drafting AML/CFT legislation resulted in the adoption of new or revised AML/CFT frameworks in numerous countries and jurisdictions such as Cambodia, Lao PDR, Mongolia, Guinea, Lesotho, The Gambia, China, Syria, Iran, the West Bank and Gaza, the Kyrgyz Republic, Moldova, Turkmenistan, and Mauritania.

- TA to Nigeria and Mauritius contributed to the establishment of FIUs that subsequently obtained membership in the Egmont Group of FIUs². The Kyrgyz Republic, Seychelles, and Bangladesh are currently seeking Egmont Group membership following receipt of Fund TA.
- Major bilateral and regional projects in Central America and the Eastern Caribbean region on risk-based approaches to supervision are resulting in harmonized and cost-effective AML/CFT approaches throughout the region.
- TA programs for Albania, Armenia, Kosovo, Georgia, Kyrgyz Republic, Moldova, Macao SAR, and Argentina helped develop and improve AML/CFT on-site inspection procedures for banks and regulators.
- Pre-assessment TA has proven particularly helpful in familiarizing countries with the standard against which they are being assessed and in raising the level of engagement by policy-level officials in such countries as Saudi Arabia, Mexico, China, Djibouti, Vietnam, and Paraguay.
- Post-assessment TA has been extremely effective in addressing AML/CFT weaknesses highlighted in the course of assessments in Uruguay, Cape Verde, and Belarus. Post-assessment TA programs are presently planned for Mauritius, Mexico, Mongolia, and Thailand.

27. **The Fund has also contributed significantly to enhancing the global assessment process of compliance with the FATF standard.** The Fund has assisted FATF to develop its assessor training materials and regularly provides experts to instruct new AML/CFT assessors in all assessor bodies.

28. **The Fund has greatly contributed to the international community's understanding of AML/CFT issues through its analytical work program.** This emphasis on analytical work and policy development is grounded in the Fund's institutional tradition of empirically-based policy advice which is a particularly important feature in an area as lightly investigated as money laundering and the financing of terrorism. Much of this analytical work flows from and is reinforced by the Fund's own assessment and technical assistance work.

29. **The Fund has published information and analysis concerning the FATF standard, best practices and implementation challenges.** In addition to regular comments and contributions to FATF and FSRB discussions and presentations of papers at important AML/CFT conferences, Fund staff have also published handbooks on FIUs and terrorist

² To meet the standards of Egmont membership, an FIU must be a centralized unit within a nation or jurisdiction to detect criminal financial activity and ensure adherence to laws against financial crimes, including terrorist financing and money laundering.

financing legislation and, in collaboration with the Egmont Group, reviewed the performance of FIUs. The Fund's analysis of the economic effects of AML/CFT measures on remittance flows has been widely recognized as an important contribution to understanding the dynamics of this phenomenon.

II. AML/CFT TOPICAL TRUST FUND (TTF) PROPOSAL

30. **The AML/CFT TTF will enhance the Fund's ability to provide focused, flexible and responsive AML/CFT TA and training to recipient countries and support this work through a targeted AML/CFT analytical work program.** It will enable the Fund to respond quickly in addressing weaknesses in member countries' AML/CFT systems that could have a destabilizing effect on the financial systems of individual countries or on the global financial system as a whole. The Fund's analytical work program will continue to support its TA ensuring its continued innovativeness and relevance.

31. **By aligning the contributions of all interested donors, the AML/CFT TTF will enable the Fund to understand and address the ML and TF risks to the international financial system as well as members' needs to develop and implement effective AML/CFT systems.** The AML/CFT TTF will allow the Fund to develop further a coordinated and comprehensive response to the risks associated with the globalization of financial markets while guaranteeing an international level playing field in a sensitive area. As a result, Fund members and other recipients will benefit from sorely needed customized technical expertise and assistance anchored in impartial and focused high quality analytical work.

32. **The resources of the AML/CFT TTF will be used on a strategic and prioritized basis to finance TA projects that seek to enhance the capacity of members to combat money laundering and the financing of terrorism.** To this effect, the Fund has developed a four-pronged strategy to respond to member states' demand for its services while maintaining appropriate focus and high standards of quality in its AML/CFT TA delivery. The four prongs of the strategy are:

- Focusing on systemically important countries, middle-income countries and countries with significant ML or FT risks.
- Focusing on areas related to the Fund's core competencies—i.e., overall system design, financial sector regulatory issues, law reform, good governance, and institution building.
- Striking the appropriate balance of bilateral programs for systemically important members and regional approaches.
- Enhancing TA delivery through (i) long-term planning with emphasis on fostering closer relationships with country officials and area departments; (ii) developing regional and country strategies; (iii) maximizing the use of external resources, (iv) combining staff expertise with short and long-term field experts to optimize skill

mixes and realize savings on travel cost, and (v) implementing strict quality control measures.

33. **The Fund’s AML/CFT technical assistance resources will be focused on a priority list of recipients.** As overall compliance with the FATF standard continues to be low, the Fund has developed an ambitious yet pragmatic TA strategy that contemplates, subject to the successful establishment of the AML/CFT TTF, interventions in a number of priority countries. While the main beneficiaries of TA delivery in the period ahead span the globe, there will be a particular emphasis on a subset of systemically and strategically important countries. Priorities will be based on a variety of inter-related criteria, including (i) level of economic development, (ii) institutional weaknesses and capacity needs, (iii) risk exposure to ML and FT,³ (iv) long term commitment to bring about significant improvements in AML/CFT frameworks consistent with international standards.

34. **Low-income countries tend to have low levels of compliance with the international standard.** Moreover, ML and FT risk may be relatively high and particularly significant where criminal activities account for a disproportionately high percentage of a country’s GDP, where official corruption can have a negative impact on growth, or where a country’s access to global financial markets is vulnerable to counter measures and sanctions. In close coordination with the World Bank’s work in low-income countries, the Fund proposes to pay special attention to those low income countries facing systemic and endemic problems with official corruption and overall governance, and where such countries present ML or FT “contagion” risk to neighboring emerging markets. This would include, for example, the Fund’s proposed work in the area of money laundering by abuse of the market in precious metals and stones. Focused TA delivery through both regional workshops and intensive bi-lateral engagement is scheduled to take place in sub-Saharan Africa in support of a strategic mix of low-income countries, early stabilizers and emerging markets.

35. **The main focus of the Fund’s TA work will be in the following areas:** (i) assistance in developing national AML/CFT strategies; (ii) assistance in conducting systemic risk assessments and in developing institutional frameworks with a risk-based approach; (iii) assistance in improving and strengthening legal and regulatory frameworks; and (iv) assistance in building and strengthening institutional and operational capacities (financial sector supervisors, FIUs, and financial literacy for justice officials). A substantial part of this TA will be delivered through post-assessment TA to countries assessed under the FATF standard or to be assessed by the Fund and other assessor bodies.

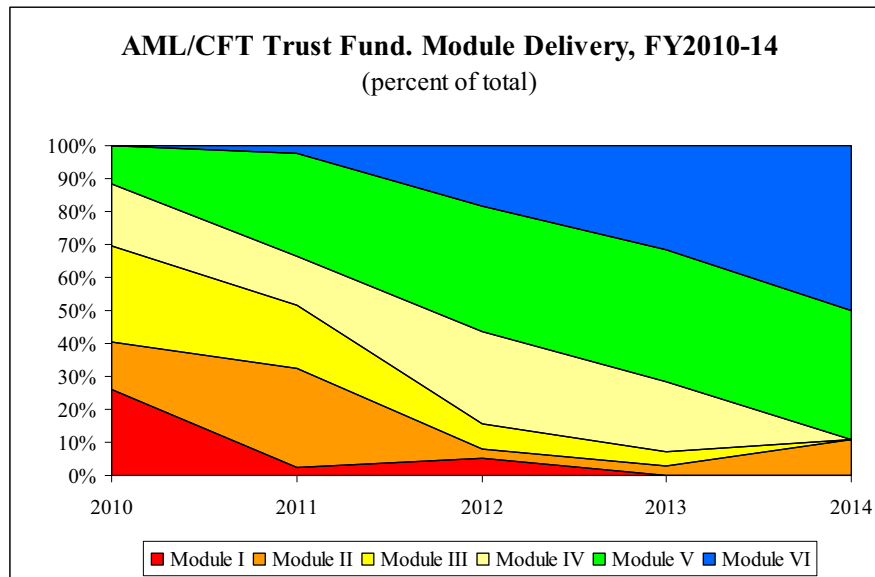
³ As noted in Annex II concerning the AML/CFT analytical work program, the Fund is currently developing a methodology to identify and assess ML/FT risks and is testing ideas in the field with select member countries. This work is important both to help the Fund prioritize countries for surveillance and technical assistance attention, as well as ultimately to help countries conduct their own risk assessments. Although the work is at an early stage, the Fund’s operating presumption is that the nature and level of ML and FT risk depends upon a number of specific risk events, and that high risk will not in all cases be correlated with low levels of compliance with the standard or with low income levels. These presumptions are reflected in the strategic focus for the TTF outlined above.

36. **AML/CFT TA will be delivered through longer-term projects integrating recipients' needs and their capacity to implement the recommendations given.** The different types of assistance above, which illustrate the scope of the Fund's AML/CFT TA, constitute modules that can be delivered separately or together as part of a customized TA strategy that the Fund develops in concert with recipient countries. Specifically, the six modules are:

- I. Diagnostic
- II. National Strategies and Coordination
- III. Risk Assessment
- IV. Legislation
- V. Structures and Tools
- VI. Effectiveness and Efficiency⁴

37. **This approach is consistent with the Fund's philosophy of establishing long-term TA relationships** geared at delivering a balanced and appropriately sequenced assistance through multi-module projects. As countries progress through a technical assistance project comprising a series of customized module deliveries, they transit from a situation of low compliance to a stage where their systems, processes, and strategies are increasingly compliant (partially, largely or fully) with international standards.

Figure 1. AML/CFT Trust Fund. Module Delivery, FY 2010–14



38. **The first year of the TTF will see the roll out of a number of AML/CFT technical assistance projects** in addition to the continuation of a number of existing projects. Delivery

⁴ See below for a full description of each module.

of the Risk Assessment module is underway in the South Pacific, with a select number of Pacific island states to follow in the coming year. Building on prior engagement with countries in Central Asia and Eastern Europe, the National Strategies, Risk Assessment and Structures and Tools modules will also begin in year one and continue over the next 3-5 years in a number of countries in that region. Emerging markets and high-risk countries in Asia, Africa and the Middle East are likely recipients of the full suite of modules over the next five years. In the Western Hemisphere, the Fund is looking to continue its work with current TA recipients and to commence module delivery in 2009. In addition to being flexible and attuned to countries' needs, this approach allows the monitoring of recipient countries' progress and the evaluation of TA outcomes.

39. **Successful technical assistance depends on applied analytical work that identifies and systematizes AML/CFT best practices and that deepens global understanding of money-laundering and predicate crime more generally.** In this regard, the Fund's analytical work is an important ancillary component of its overall program and could be supported by the TTF. Here, as elsewhere, the Fund will be guided by its institutional focus on the relationship between financial integrity and financial macroeconomic stability and will work on topics that fall within its comparative advantage. For example, as the Fund is generally in a unique position to study cross-border financial flows, so is it well placed to examine cross-border money laundering (sometimes referred to as "illicit financial flows"), including the developmentally and macroeconomically relevant flows associated with kleptocracy, and corruption. Other topics that meet the test of comparative advantage could be (i) the linkages between crime, underground economic activity, money laundering and macro-economic developments, (ii) improving the risk-targeting of AML/CFT regimes to optimize government and public-sector spending in this area, and (iii) assisting the FATF in its understanding of the costs and benefits of particular AML/CFT policies and strategies. Possible contours of this analytical work are discussed in Annex II.

A. Project-based delivery Modules

40. **Under the TTF, the Fund will deliver projects that contain a number of customized work modules in key areas of AML/CFT development with particular emphasis on financial sector issues.** With its extensive experience in TA design and delivery, the Fund recognizes that there is no "one size fits all" approach to TA, particularly in the dynamic environment of AML/CFT. At the same time, the Fund's specialized AML/CFT unit has learned that countries' needs are often similar to those other countries have addressed previously, it often makes sense for countries to move sequentially through a series of steps in building an effective AML/CFT system, and resource requirements to meet these needs are somewhat predictable. In order to serve the needs of the member countries, maximize efficiencies, define measurable goals, and project budgetary and human resource requirements, the Fund staff has developed a number of modules that can be customized for each TA recipient.

41. **In delivering its AML/CFT TA, Fund staff has the ability to draw on the skills of recognized AML/CFT experts in niche areas as required and has access to the vast data**

resources of the Fund. The Fund TA delivery approach is premised on the establishment of a partnership with each member country. Having determined the country's needs through a meaningful dialogue, the Fund is able to provide objective advice based on an assessment of the immediate and long term needs of the member country. This approach allows the Fund and the member country to articulate the adequate response for the identified need not only in terms of modality of delivery but also with regard to project size and duration, timeliness of progress, capacity constraints and political outlook.

42. **A project-based approach to TA typically requires the design and delivery of a number of the following linked modules, customized to a country's specific situation and needs** and delivered over a timeframe that recognizes the local conditions and seeks to maximize returns in both regional and international contexts:

Diagnostic Module

43. **This start-up module delivers detailed needs assessment reports which identify strengths and weaknesses in the legal, regulatory, and institutional framework of a country's AML/CFT regime.** The diagnostic module constitutes a platform, and the first step toward a potentially larger project of sequenced TA modules that will develop and strengthen the regime. An additional advantage is that these comprehensive reports identify needs in areas that may be addressed by other TA delivery agencies, often in conjunction with the Fund.

National Strategies and Coordination Module

44. **This key module provides specialist advice on AML/CFT strategies, coordination, and policy issues, including on the application of AML/CFT requirements to banks, insurance companies, securities firms, lawyers and other non-financial businesses and professions covered by the FATF Recommendations.** It promotes cooperation among domestic AML/CFT stakeholders and with their international counterparts. An important component of this module is seminars designed to transfer critical knowledge to national coordinators, parliamentarians, and private sector, with a view to develop their ability at devising AML/CFT policies and frameworks as well as laws or regulations and adopting international best practices.

Risk Assessment Module

45. **Tackling the complexity of articulating risk-based approaches to AML/CFT is a constant challenge for emerging markets and developing economies.** In this area, the Fund relies on its specialist in-house staff together with world experts to deliver assistance in systemically assessing money laundering and financing of terrorism risks and vulnerabilities. This module will enable officials to better identify, measure, and mitigate money laundering and financing of terrorism risks and to make better choices about the allocation of resources, nationally as well as on a sector-by-sector basis.

Legislation Module

46. **This “nuts and bolts” module illustrates one of the Fund’s comparative advantages and involves the provision of advice and assistance in drafting customized AML/CFT laws, regulations and guidelines.** In this module, a team of lawyers and financial sector experts provide advice and commentary on legislative proposals, typically prior to such proposals being sent to the country’s parliament. If required, drafting of new AML or CFT legislation (or amendments thereto), is undertaken including drafting of provisions in criminal, administrative, banking and financial services law as well as financial and non-financial sector AML/CFT regulations, guidelines, and guidance notes. To maximize output and to minimize travel expenses, this module is often delivered from Fund headquarters with any face-to-face meetings being conducted as part of other technical assistance missions to the country, in line with the overall project design.

Structures and Tools Module

47. **This module is typically delivered after a country’s laws and institutions have been established or are in a nascent stage.** Detailed legal and operational advice and assistance is provided in relation to the formation and development of FIUs and the training of FIU staff in addition to assistance in enhancing supervisory oversight of financial and non-financial reporting institutions for AML/CFT, development of specialized AML/CFT supervisory units, manuals and procedures plus the training of supervisors in off-site and on-site AML/CFT supervision and inspection procedures.

Effectiveness and Efficiency Module

48. **This module provides a snapshot at any point in time along a country’s path from low or no compliance right up to the stage of a fully or near fully developed regime.** The module entails reviewing and advising on the effectiveness and efficiency of AML/CFT national systems, or of selected AML/CFT mechanisms in place (supervisory structure, FIU, criminal justice chain, etc.), to assist governments in improving their resource allocation or in refining their AML/CFT policies. Ideally provided at the half way point of a multi-module project, this module is also particularly effective prior to the country being assessed under the international standard by the FATF or another assessor body.

Workshops

49. A key feature of the Fund’s project-based delivery work is that the right message is delivered to the right people both within the recipient country and in the surrounding region or with key international partners. Accordingly, **built into each module are workshop modules that deliver specialized training** to targeted groups of officials. Workshops may also be appropriate on a regional basis to address issues of common concern.

Long-Term Experts

50. An essential component of every project design is the issue of resources and the methods used to maximize output for the greatest benefit across all target countries. In addition to Fund staff which not only devises TA but provides important backstopping and project management skills, the Fund will also employ a range of short and long-term experts (LTX). **The placement of an LTX ensures that real traction is gained throughout the project delivery** and that slippage and loss of momentum are eliminated or greatly reduced. The LTX can both supplement host country expertise and enhance its effectiveness by providing one-on-one specialized training to key individual members of those agencies involved in AML/CFT issues.

B. Sustainability and Possible Obstacles

Sustainability of the Fund's AML/CFT TA

51. **A key element of a successful TA program is the recipient countries' ability to sustain the goals achieved through the delivery of AML/CFT TA.** This requires an in-depth understanding not only of the recipient country's TA needs, but also of its capacity to absorb TA at the time of delivery and to maximize the benefits of TA after delivery. Such an understanding may only be built through a close cooperation between the Fund and the recipient country, hence the emphasis on developing TA programs jointly with recipient countries. The Fund takes several measures to foster sustainability of its TA programs:

- **A commitment to country ownership.** Authorities are involved in all phases of the project, including its design, implementation, and follow-up. This approach increases the likelihood that (i) specific needs are clearly identified at the start of the project, (ii) all relevant local characteristics are taken into account in designing the project, (iii) the country's capacity to absorb TA over time, and (iv) local experience and expertise are utilized in developing appropriate responses to identified TA needs. These measures have contributed to create a greater sense of ownership of the TA program by the local authorities.
- **A focus on capacity building.** Building the capacity of the staff of the various agencies that receive AML/CFT TA is another measure that promotes sustainability of the Fund's projects. Comprehensive staff training, which is always a component of the Fund's AML/CFT TA projects, enhances the likelihood that staff will be able to implement and operate new frameworks, systems, and practices successfully.

52. **All of the Fund's TA programs are designed with a recognition that countries will progress at different speeds.** The Fund's TA programs are, therefore, designed and rolled out against the backdrop of a carefully articulated and flexible action plan which includes a detailed timetable for implementation of various project phases. This allows the Fund to track progress and, if necessary, identify circumstances where implementation needs to be delayed until specified goals have been achieved. When and where necessary, the Fund

adapts the plans to the country's evolving needs and circumstances to ensure the maximum effectiveness of its TA programs.

Possible Obstacles

53. **The absence of a strong political commitment to establish an effective AML/CFT regime can significantly undermine the effectiveness of the Fund's AML/CFT TA initiatives.** The Fund addresses this risk by reaching out to relevant stakeholders at the outset of its engagement with a member country. Where such a risk exists, awareness-raising initiatives are included as a key component of the Fund's TA projects. In practice, they often include meetings with parliamentarians, members of government, high-ranking officials, and representatives of the private sector. In the Fund's experience, the inclusion of as wide a range of stakeholders as possible significantly enhances the chances of a successful outcome of TA programs.

54. **Poor coordination with other donors is another risk that can undermine the effectiveness of the Fund's AML/CFT TA.** Duplication inevitably results in sub-optimal use of resources by all parties concerned. The Fund mitigates this risk by engaging in regular dialogue with other donors and limiting its TA to areas in which it has a comparative advantage.

C. Resource Needs

55. **It is projected that the trust fund will need approximately \$30.8 million to cover AML/CFT TA and associated analytical work over the next five fiscal years.** These services would be provided in addition to Fund financed TA in the field of AML/CFT, which will be maintained at a level consistent with the refocused and downsized medium term Fund budget. The following chart and table provide estimates based on projected demand for technical assistance under the AML/CFT trust fund over the fiscal years 2010 to 2014.

Table 1. Resource Needs and Expenditure

	2010	2011	2012	2013	2014	Total
Personnel costs	3,897,473	4,731,344	4,768,086	4,803,501	4,422,942	22,623,346
TA delivery (1)	3,151,372	3,955,399	3,961,103	3,964,239	3,550,110	18,582,223
Research (2)	746,101	775,945	806,983	839,262	872,832	4,041,123
Travel (3)	913,875	914,944	748,641	852,473	602,447	4,032,379
Miscellaneous (4)	60,000	60,000	60,000	60,000	60,000	300,000
Seminars & Workshops (5)	193,750	203,438	213,609	224,290	235,504	1,070,591
Steering Committee Meetings	50,000	52,500	55,125	57,881	60,775	276,282
Evaluation	-	-	-	500,000	-	500,000
Trust Fund management fee	358,057	417,356	409,182	454,870	376,717	2,016,182
Total	5,473,154	6,379,581	6,254,643	6,953,015	5,758,385	30,818,780

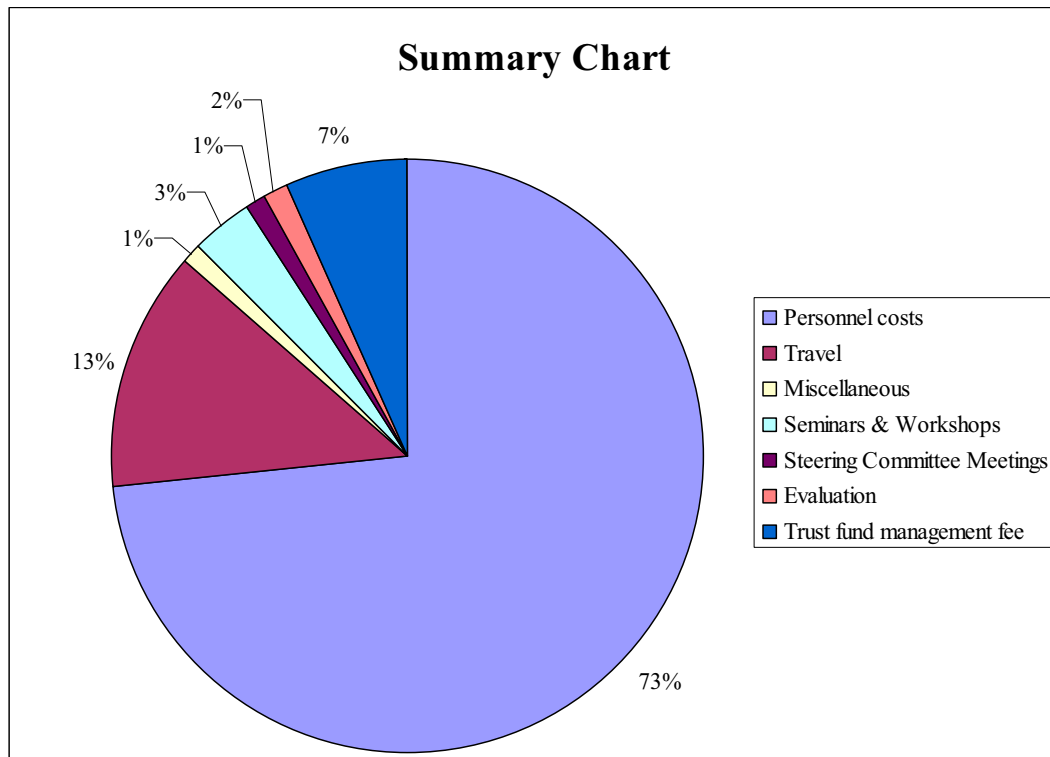
(1) Includes HQ-based, TA field delivery and backstopping and project management.

(2) Includes personnel for research.

(3) Includes travel for modules and research.

(4) Includes research and modules.

(5) Includes workshops and conference from research.

Figure 2. Percentage Distribution of Expenses

III. GOVERNANCE AND OPERATIONAL ARRANGEMENTS

Compared to a bilateral approach to pursuing AML/CFT work, organization in a multi-donor trust fund does not only improve donor coordination but also ensures that donor input is channeled toward action in a coordinated way. It ensures a global approach, reach, and visibility—advantages that are of particular relevance in addressing the global challenges of ML/FT risks. Last but not least, it exploits substantial efficiency gains in organizing and administering this effort.

A. Governance Structure

The Steering Committee

56. **Work under the AML/CFT Topical Trust Fund (TTF) will be guided by a Steering Committee (SC), composed of donor representatives and IMF staff.** Where relevant, international and regional institutions and other TA providers in the field of AML/CFT will be invited to participate as observers. The SC will be chaired by a donor representative, with the possibility of rotating the chairmanship among donors. IMF staff will serve as a Secretariat to the SC. Committee meetings are expected to be held annually.

57. **The SC’s function is to provide strategic guidance and contribute to the setting of policies and priorities, including through the endorsement of an indicative annual work plan and financial plan.** It is expected that the Committee will review progress under the work plan as well as performance under the program. In light of ongoing discussions about reforms of the global financial architecture, the Committee could adjust the program in response to any such changes if necessary to achieve the program objectives.

Planning and Programming within the IMF

58. **In consultation with country authorities, IMF area departments integrate the reform agendas of countries with the Fund’s own policy and surveillance perspectives, drawing on the technical expertise of TA departments.** They identify topics for TA and set priorities across TA departments and balance short- and medium-term considerations, while relying on the TA departments’ technical expertise and country knowledge for TA prioritization, sequencing, and delivery mode. This internal prioritization process provides checks and balances, which ensure that Fund TA remains highly relevant and focuses on the Fund core expertise while taking into account regional developments. The resulting Regional Strategy Notes (RSNs), which are shared with recipient countries and donors, set out a joint medium-term TA agenda that countries and all concerned departments subscribe to, providing the basis for integration of TA activities into the Fund’s surveillance and lending operations.

B. The Work Plan

59. **The Fund will take a demand-driven approach to the selection and delivery of TA.** As set out above, a constant flow of TA demand is expected from new requests as well as the Fund’s substantial past TA work and reach, including from existing arrangements with respect to AML/CFT assessments, post-assessments, and TA. The selection of TA projects will be based on well-defined criteria with respect to country eligibility, topic area and consistency with the Fund’s broader work. Priorities will be based on a variety of inter-related criteria, including (i) level of economic development, (ii) institutional weaknesses and capacity needs, (iii) risk exposure to ML and FT, (iv) long term commitment to bring about significant improvements in AML/CFT frameworks consistent with international standards.

60. **It is envisaged that the workplan will also include analytical work**—up to about 15 percent of total expenditure—on the economic impact of crime and corruption, money laundering and terrorist financing risk, and best practices in implementing cost-effective AML/CFT controls; and organization of and participation in seminars and conferences.

61. **The workplan will be submitted to the SC for its endorsement at its regular meetings.** Prior to formal endorsement, IMF staff will seek strategic guidance of SC

members when assembling the work plan.⁵ At each SC meeting, the IMF will deliver a report on the execution of activities vis-à-vis a previously endorsed work plan.

C. Accountability and Quality Control

62. To foster increased accountability, effectiveness, and sustainability of the TA delivered, the management and use of TTF resources will be closely monitored in a number of ways.

- In line with the Fund’s new Results Focused Management System (RFMS) approach, TA under the TTF will be organized into specific projects. Each project will have clear pre-specified objectives, outputs, and indicators against which progress will be measured, distinguishing between areas within Fund control and those that require action by the authorities. To ensure country ownership, the authorities will be consulted in the design of the main project deliverables. Project implementation and monitoring under the RFMS will be enabled through the Fund’s Technical Assistance Information Management System (TAIMS)—a standardized computer program for managing and tracking all of the Fund’s TA activities.
- AML/CFT TA will be supervised, carried out, and backstopped by the Fund’s Legal Department’s Financial Integrity Group (FIG) and—where relevant—other TA departments of the Fund. This reflects the principal role of these departments in maintaining the overall quality and consistency of all Fund TA and policy recommendations in their respective areas of expertise. Operationally, quality control will be provided through: (a) the screening and selection process for experts; (b) regular supervision and backstopping support from IMF headquarters; and (c) regular self-assessments, assessing progress achieved to date against the pre-defined project objectives and outcomes.
- The IMF’s Area Departments will also, in the context of IMF-supported country programs and surveillance activities, monitor the progress of beneficiary countries in implementing reforms that are supported by the MDTF.
- Relevant information on project status will be accessible to donors via the IMF’s Donor Gateway (<https://www-extranet.imf.org>). In addition to financial information, the Donor Gateway is a central repository of information on donor arrangements, including their legal documentation, project documents, progress reports, project status, and self-assessments. The Gateway also provides access to RSNs as well as a multitude of other information on Fund TA.

⁵ An operational guidance note will lay out more detailed procedures for operations under the trust fund, including interactions between Fund staff and members of the Steering Committee in the preparation of the work plan.

D. Evaluation

63. **It is proposed that, after no fewer than three years of operation, an independent evaluation of the AML/CFT TA and associated analytical work provided under the TTF be carried out by a team of outside experts.** The evaluation will assess the effectiveness and sustainability of this work and will formulate recommendations for improvement. The findings of the evaluation will inform discussions on operations for the remainder of the initial five-year phase and beyond.

IV. FINANCING AND ADMINISTRATIVE ISSUES

A. Financing

64. **The estimated total cost of AML/CFT TA provided under the TTF for an initial five-year phase is \$30.8 million.** To provide stability and continuity for operations under the MDTF, financing will be secured in advance for the entire five-year period.

B. Administrative Arrangements

65. **All contributions from donors will be made into a multi-donor AML/CFT Subaccount to be established by the Fund for this purpose.** This Subaccount will be used to receive and disburse financial contributions for the sole use of financing TA activities under the TTF. An indicative budget and work plan is currently being prepared. All funds will be commingled.

66. **The basis for the financial arrangements between donors and the IMF will be a letter of understanding** establishing the purposes of the contributions, and the method, terms, and conditions by which the costs of AML/CFT TA activities will be financed from the resources contributed to the Subaccount. The IMF will administer and account for all donor contributions in accordance with its financial regulations and other applicable IMF practices and procedures. If the IMF recruits outside consultants and experts, it will do so in accordance with its normal procedures.⁶ For any procurement of goods and services, IMF regulations require a competitive bidding process with at least three competitive bids. For more detailed information on IMF procurement methodologies, please see <http://www.imf.org/external/np/procure/eng/meth.htm>.

67. **The IMF will charge all project-related costs of AML/CFT TA provided under the TTF on the basis of actual cost, including for IMF staff time.** For the administration of the TTF, the IMF will charge a fee of 7 percent.

68. **The IMF will provide donors with reports on the Subaccount's expenditures and commitments.** The operations and transactions conducted through the Subaccount will be

⁶ The Fund maintains a roster of experts whose certification is based on, among others, strong performance records, and proven familiarity with international best practice.

subjected to annual audits. Separate reporting on the execution of the AML/CFT TTF budget will also be provided at each SC meeting and is available on an ongoing basis via the IMF's Donor Gateway.

ANNEX I. REGIONAL PERSPECTIVE

Africa

Implementing comprehensive AML/CFT policies in the context of developing countries presents some distinctive challenges in Africa caused by the severe resource constraints common in the region. These challenges are often complicated by official corruption, which has been shown to negatively affect growth. Some African countries have already adopted AML and CFT laws but several are still at the legislative stage. In most cases, existing frameworks are relatively rudimentary and do not conform to the current AML/CFT international standards. Very few countries have established FIUs. As the increasing flow of foreign investment in some Sub-Saharan countries is stimulating the development of their financial sectors, these countries are faced with the challenge of managing growth while ensuring the protection of their financial sectors' integrity. The Fund can address the technical assistance needs of these countries, integrate development of AML/CFT regimes alongside programs to improve governance, and thus contribute to their gradual and smooth integration into the international financial system.

Asia Pacific

While AML/CFT regimes are generally more mature and considerable progress has been made in strengthening AML/CFT-related supervision and regulations for banks and the non-bank financial sector in the Asia Pacific Region, several countries continue to lag behind in terms of the effectiveness of supervision, as well as the capacity of supervised institutions to comply with the requirements of existing AML/CFT regimes. Therefore, technical assistance is still needed to support: (i) drafting AML/CFT implementing rules and regulations; (ii) establishing effective suspicious transaction monitoring systems; and (iii) developing capacity for key governmental institutions to implement effective AML/CFT regimes. In particular, the region's FIUs need to be strengthened in terms of information technology and specialized training for staff.

Europe

In the South Eastern sub-region, a number of the AML/CFT frameworks lack concrete implementation measures. Although most of the countries in South Eastern Europe adopted AML legislation several years ago, financial sector and banking supervision and regulation remains an area of considerable weaknesses in most of those countries. There is a need for targeted technical assistance in developing the AML/CFT institutional frameworks, including with regard to financial sector supervision and regulatory framework.

Middle East and Central Asia

In the Middle East/North Africa region, most countries have made considerable progress by adopting either AML or AML/CFT legislation. A number of countries are now working on

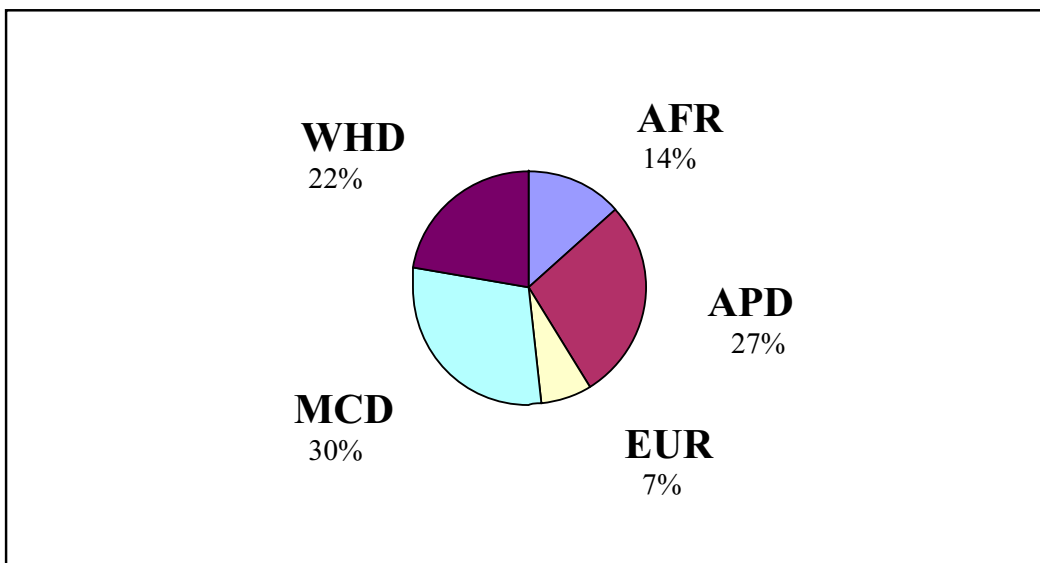
passing and implementing CFT legislation. There is room for strengthening and further implementing existing frameworks in almost all countries in the region. Technical assistance is therefore still needed to support: (i) drafting AML/CFT implementing rules and regulations; (ii) establishing effective suspicious transaction monitoring systems; and (iii) developing capacity for key governmental institutions to implement effective AML/CFT regimes. In particular, the region's FIUs need to be strengthened in terms of information technology and specialized training for staff and national AML/CFT Committees need to be enhanced for further effectiveness.

Most countries in the Central Asian region have yet to develop comprehensive AML/CFT legislation and generally lack enforcement capability. Generally, much of the old Soviet-style legislation is still in force that does not take into account many of the current international standards. There are concerns with regard to lack of political and financial transparency in the management of natural resources, which increases the region's vulnerability to money laundering and related corruption. In addition to the need for the development of corruption control mechanisms, there is a need for AML/CFT legislation and strategies for its implementation, as well as the establishment of effective and operational FIUs.

Western Hemisphere

For the most part, countries in Latin America and the Caribbean region possess comprehensive AML/CFT legal and institutional frameworks. However, in a number of countries, there is room for strengthening the implementation of existing frameworks. As Latin America and the Caribbean region are currently experiencing relatively favorable external conditions and robust growth, the Fund's AML/CFT TA main objective for the region in the next five years is to strengthen legal, regulatory and policy frameworks to sustain good performance.

Figure 3. Regional Distribution by Projected Cost



ANNEX II. ANALYTICAL WORK PROGRAM

The Fund's AML/CFT analytical work program supports its assessment and TA work by collecting and analyzing data on predicate crime, money laundering, terrorist financing, and AML/CFT legal, regulatory and institutional regimes.

Information about implementation issues, challenges, and best practices within its membership come to the Fund from its own assessment and technical assistance work as well as from its review and familiarity with the products of other assessor bodies and TA providers. The research process analyzes this information and integrates it with the broader theoretical and economic literature to contribute to a better understanding of the reality of ML and FT, identify global best practices, and provide benchmarks for assessors and TA providers.

The AML/CFT analytical work program will be guided by the Fund's institutional focus on the relationship between financial integrity and financial macroeconomic stability and will work on topics that fall within its comparative advantage. The Fund's analytical work program in the period ahead focuses on more systematically identifying the linkages between the risks posed by ML and TF and financial sector stability.

Focus of Current Preliminary Work

Developing a framework for analyzing the macroeconomic impact of ML and its predicate crimes: With assistance from other departments within the Fund, the AML/CFT staff is developing a macro-economic model of money laundering that should permit the development of testable hypotheses of the macro-economic impact of money laundering and its connection to informal sector financial flows. The framework is expected to:

- Help identify and isolate the component of overall ML that is of most importance to financial sector stability and help identify when ML might be de-stabilizing and have macroeconomic significance;
- Help identify how ML flows affect national output;
- Help identify which ML transactions are captured in national accounts and the effects of any misreporting on economic policy making;
- Help identify the transaction costs associated with AML regimes and whether they induce criminals to transact in legal or illegal markets;
- Help understand the circumstances where the deterrent impact of AML might be least effective due to other factors;

- Help understand the foreign exchange impact of illegal transfers especially if a significant percentage occurs in the same currency; and
- Help understand the impact of ML flows on the balance sheets of entities in the formal financial sector.
- Set out testable hypotheses and identifying areas of interest for case-study analytical work

Developing country-level indicators of ML and TF risk: For use in country and global ML and TF risk assessments. The Fund is currently developing a methodology to identify and assess ML/TF risks and is testing ideas in the field with select member countries. Risk-based approaches to AML/CFT work are especially important to lowering the overall costs of compliance to the financial sector and enabling a better allocation of government and private sector resources in this area.

Other Topics for Further Work:

Developing an estimate of annual global criminal proceeds: which would set the upper limit for the amount of funds laundered. The output would be a report, breaking the results down by region and by predicate crime type and would be the basis for understanding the magnitudes and vectors of cross-border money-laundering (sometimes known as “illicit financial flows”). Data would be gathered from IMF member countries using a spreadsheet-based estimation tool that is already partially developed. This exercise could be conducted periodically, perhaps every three to five years.

Best practices in implementing cost-effective AML/CFT controls: This analytical work would collate and analyze information on the relative cost of implementing AML/CFT regimes, including to the private sector, in a range of IMF member countries. The output would be a paper containing the results and suggesting benchmark indicators of best practice for use in policy development and assessments. This exercise could be expected to be updated periodically, perhaps every three to five years.

Developing measures for assessing the effectiveness of AML/CFT regimes: The analytical work would focus on the judicial process, including investigations, the use of plea bargains, prosecutions, convictions, sentencing, sentence implementation, and asset forfeitures to draw linkages to their impact on the prevalence of ML and TF activity and the predicate crimes.

Comparative analysis of legal frameworks: Used for implementing AML/CFT regimes covering such topics as variations in the criminalization of ML and TF; prevalence of suspicion and threshold based reporting; coverage of different types of financial institutions

and DNFBPs; and AML/CFT financial supervision modalities. The output would be a publication setting out the results.

Developing a compendium and analysis of major ML cases: The output would be a paper identifying the predicate crime(s), the total criminal proceeds involved, the total funds laundered, the number and value of transactions involved in the laundering, the types of institutions that the funds flowed through, the types of financial instruments involved, the countries involved, and the types of persons and entities used to carry out the transactions. The compendium could be updated on a regular basis—to include new major cases, perhaps every three to five years.

Analysis of AML/CFT compliance ratings: This analytical work would result in an annual web-based publication setting out collated information about global compliance with the FATF recommendations, showing such things as compliance levels by region and country income groupings, identifying FATF recommendations with major compliance variations, and those that pose particular compliance challenges. The report would also contain a table showing compliance ratings for each country.

Analysis of global compliance ratings for particular FATF recommendations: Posing compliance challenges (e.g., Recommendation 5). This analytical work would analyze assessment reports to determine the main reasons for the compliance challenges. The output would be a paper identifying, for each selected recommendation, a statistical analysis of the main reasons for the poor compliance. This exercise could be expected to be updated periodically, perhaps every three to five years.

Methodology

The analytical work on these topics, many of which are inter-related, would rely to a large extent on the following methods:

- Development and analysis of case studies using themes such as, how countries organize their AML/CFT supervision; how the proceeds of different predicate crimes are laundered in different countries;
- Analysis of published laws and regulations;
- Analysis of, and collation of, material in published Mutual Evaluation Report (MERs) and Detailed Assessment Reports (DARs);
- Analysis of actual ML and TF cases where convictions were obtained;
- Gathering and collating key data from IMF members directly or indirectly (e.g., number of convictions (for ML and predicates); number and value of seizures,

confiscations; and forfeitures, number and value of Suspicious Transaction Report (STRs) filed (broken down into reporting entities, crime types etc); number of inward and outwards FIU to FIU requests; number of other international cooperation requests, etc.

- Carrying out comparative analysis of ML and TF collated data and information with economic and financial statistics held by the IMF and other bodies; and
- Organization of and participation in seminars, conferences, and targeted outreach activities to exchange views with non-Fund researchers and improve understanding of AML/CFT issues across the membership.

Data and Information

Unfortunately, reliable and systematically collected data about many aspects of ML and TF is relatively scarce. For example, it is not possible even to obtain the worldwide total for the number of STRs filed annually, let alone more detailed information such as in which types of financial institutions are ML and TF related transactions conducted. Data and information concerning compliance with the FATF Recommendations is easier to find than information on ML and TF activity in its own right, but even compliance-related data and information in MERs and DARs is not collected in a standardized manner. These deficiencies have impeded a proper understanding of the real economic impact of ML and predicate crime and the Fund's analytical work program will also have to address basic data and information issues to be successful.

ANNEX III. LOGFRAME MATRIX AML/CFT TOPICAL TRUST FUND

OBJECTIVE	INPUTS	OUTPUTS	OUTCOMES	INDICATORS	EXOGENOUS FACTORS
<p>What is the overall broader objective to which the project will contribute?</p> <p>Strengthen national and regional efforts to address ML/TF risks and challenges in a significant, sustainable and measurable way.</p> <p>Promoting robust responses to ML/TF challenges to:</p> <ul style="list-style-type: none"> - Protect the integrity and stability of the international financial system - Facilitate integration of national financial systems into the global financial system, thereby potentially contributing to increased access to finance at the national level. 	<p>What are the key activities to be carried out and in what sequence in order to produce the expected results?</p> <p>Customized delivery of modules in a timely sequenced fashion starting with a diagnosis, working through modules of strategy, risk, laws, structures and tools to conclude with an effectiveness and efficiency evaluation.</p> <p>Inputs can include a combination of work, including missions and workshops, by</p> <ul style="list-style-type: none"> - Fund staff, - headquarters-based experts (HQX), - field visits of short-term experts (STX), - and long-term experts (LTX) stationed on-site working closely with key country officers. 	<p>What are the deliverables of the program?</p> <ul style="list-style-type: none"> - Diagnostic needs assessments - National strategy statements, - Legal advising and analytical reports - Draft laws, regulations and guidelines; - Findings of applied research and analysis, - High level awareness meetings in recipient countries - Workshops for relevant agencies, - Frameworks for the establishment of national institutions. - Risk assessment and guidelines for mitigation of risk 	<p>What are the key indicators related to the overall objective?</p> <p>A global and regional improvement in the ratings applied to assessed jurisdictions under the international standard for AML/CFT.</p>	<p>What are the sources of information for these indicators?</p> <p>Detailed Assessment Reports and Mutual Evaluation Reports submitted to the FATF and FSRBs;</p> <p>Reports on the Observance of Standards and Codes submitted to the Executive Boards of the IMF and the World Bank</p> <p>Other indicators, as specified under each module</p>	<p>What are the factors and conditions not under the direct control of the project which are necessary to achieve these objectives?</p> <p>The maintenance and guardianship of the standard and the methodology for assessment is not controlled or managed by the IMF; the program would need to be adjusted in response to changes in the FATF standards.</p> <p>General factors in recipient countries, as outlined by the FATF, including a proper culture of compliance, effective court systems and enforcement, and high ethical and professional standards for civil servants and the professions.</p> <p>Other exogenous factors, as specified under each module</p>

OBJECTIVE	INPUTS	OUTPUTS	OUTCOMES	INDICATORS	EXOGENOUS FACTORS
Module I. Diagnostics Assess the needs of a recipient country Devise custom tailored program for further module delivery	Pre-mission outreach to foster cooperation On site mission (IMF staff, STX) to assess current situation and identify needs with a view to designing a customized program of module delivery HQ mission preparation and follow-up, including report writing	Detailed diagnostic report, identifying specific needs and future activities Commitment by the authorities, confirming ownership of the project, - willingness to follow through with the project for the duration of its term, and - an acknowledgment that failure to remain committed may result in suspension or cessation of the project	Program (and commencement) of module delivery Commitment of authorities to the program	Diagnostic report submitted to authorities Commencement of module delivery program (beyond module I)	Buy-in and ownership of authorities, including their willingness to transparently lay open relevant information
Module II. National Strategies Facilitate the development and adoption of a national AML/CFT strategy	On site mission (IMF staff, STX) to develop strategy and conduct outreach and awareness raising meetings HQ-based mission preparation and follow-up, including report writing High-level workshops to raise awareness and generate buy-in and ownership LTX for follow-up, including strategy consolidation	A national AML/CFT strategy prepared jointly with the country authorities A detailed report, including the proposed strategy	Adoption by recipient country of a national strategy that promotes sustainable results Buy-in of relevant stakeholders into the strategy	Publication of a national strategy by the recipient country Follow-up on the strategy in terms of establishing and funding relevant institutions and processes	High level attendance and buy-in at outreach and awareness raising meetings Political will to publish the strategy and enforce it.

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Module III. Risk Assessments					
Assess and identify ML/TF risks	On site mission (IMF staff, STX) to assess risks	Survey of national and regional risks and threats in ML/FT	Identification and continued monitoring of risks	Number of countries making progress toward and adopting a risk based approach, including by drawing on FATF and FSRB assessments	Authorities willingness to integrate a risk based approach in all relevant entities and institutions, and follow-up on it
Devise measures and mechanisms to mitigate risks	Targeted training workshops on risk identification and reduction HQ-based mission preparation and follow-up, including report writing LTX for follow-up	Detailed risk assessment review and report	Implementation of mitigating measures Appropriate allocation of public and private sector resources Reduction in risk	Module VI report on effectiveness of AML/CFT regime	
Module IV. Legislation					
Establish a comprehensive legal and regulatory framework, including guidelines, to promote and enforce AML/CFT standards	HQ based legal drafting - STX missions and - LTX field officers to provide focused legal drafting advice Outreach to legislators and policymakers, including through workshops	Draft laws, regulations and guidelines Technical assistance reports by legal drafting staff	The promulgation and passage of new and amended AML/CFT laws, regulations and guidelines	Draft laws (as defined in the needs assessment) submitted to parliament for approval Passage of laws without fundamental changes that would weaken them	Lack of political will to pass the laws Delays in passage of legislation Lack of political will to apply and enforce the laws

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Module V. Structures & Tools					
Establish or improve national institutions necessary to enforce the AML/CFT legislation	On site mission (IMF staff, STX) to facilitate inter-agency workgroups LTX to follow-up with individual agencies, including specialized advice and training Training workshops for staff of relevant agencies	Organizational plans, operating procedures, guidelines and policy documents for AML/CFT institutions Detailed frameworks for the establishing and functioning of FIUs, supervisors and other national institutions to address ML/TF Module reports by STX and LTX	Creation and efficient functioning of key national infrastructure agencies Improved AML/CFT compliance and enforcement. Annual reporting by the national AML/CFT institutions	Improvement in ratings in FATF and FSRB assessments Increase in suspect transaction report volumes over time Increase in number of compliance audits Increase in number of on- and off-site inspection visits by supervisors and regulators Publication of Annual Report	Sufficient resource allocation for establishment and efficient functioning of entities. Meaningful integration of new institutions into the overall government structure
Module VI. Effectiveness & Efficiency					
Assess progress achieved under the program Identify remaining or new weaknesses and, if necessary, devise remedial measures	On site mission (IMF staff, STX) to assess sustained improvements under previously delivered modules HQ-based mission preparation and follow-up, including report writing Targeted workshops on implementation of further AML/CFT reforms	Survey of national effectiveness and efficiency in AML/CFT, including review of national strategy Detailed reports of effectiveness and efficiency of the AML/CFT regime Summary of all reports on modules I-V by STX	Sustained improvement in overall AML/CFT regime Holistic advancement in enforcement and compliance Strengthened institutional and procedural public	FATF and FSRB reports and member updates on level of compliance with recommendations Self-assessment reports from STX, LTX and project managers as to progress with action plans under the individual modules Annual statistics and	Allocation of resources to maintain momentum after program completion Continued political support and engagement of stakeholders

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		and LTX	infrastructure for AML/CFT Increased acceptance and cooperation by private sector	reports of government agencies Removal from FATF ICRG monitoring list, if applicable	
Training					
Sustainably increase the capacity of the authorities' staff	Training / Workshop	Increased staff competence, institutionalized know how through manuals, technical tools, among others.	Capable staff with the capacity to formulate AML/CFT relevant assessment, laws and regulations	Participant survey after training / workshop Quality of work and capacity of authorities' staff FATF assessments of staff capacity	Incentive structures for staff is adequate Core staff is maintained
Applied research and analysis					
Help guide and improve TA interventions under the program through focused, high-quality applied analysis and research, leveraging on the Fund's cross-country experience	HQ based experts and IMF staff - conducting applied research and analysis, and -participating in high level conferences and seminars	- Reports, publications and commentaries - Presentations at external conferences -IMF organized conferences and seminars	Increased database for AML/CFT analysis Improved TA interventions	Integration of research results in the plans of national, regional and international bodies	Cooperation of national and international institutions in collaborative data generation, research and analysis issues
Disseminate information of general interest to global AML/CFT community					

Office of Technical Assistance Management

700 19th Street NW
Washington, DC 20431
USA

Tel.: 1-202-623-7646

Fax: 1-202-623-7106

Email: GlobalPartnerships@imf.org