



Asian Development Bank

## REPORT TO THE APG ANNUAL MEETING

Cairns, July 2005

### Ongoing Technical Assistance and Concepts under Development

#### 1. Background

ADB's Anti-Money Laundering policy entitled '*Enhancing The Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*<sup>1</sup>' was adopted on 1 April 2003 to enable ADB to respond effectively to developing member countries' (DMC) needs related to establishing and implementing their AML/CFT regimes. To date, ADB has provided direct assistance to a number of DMCs to develop their AML/CFT regime through a regional technical assistance (TA) project, country-specific financial sector loans which include AML/CFT reform measures, TAs, and ad hoc technical legislative drafting and implementation support. TA activities have included country-specific research on AML/CFT regimes, training for officials involved in AML operations, assistance in drafting AML legislation, and technical advice to establish financial intelligence units (FIU). Much of ADB's AML assistance has been undertaken and will continue to be undertaken within the broader context of its strategies to facilitate poverty reduction, promote good governance, reduce corruption, and strengthen national financial systems.

#### 2. Ongoing Technical Assistance

Current technical assistance being undertaken is as follows:

- Cambodia

Technical assistance for Capacity Building for Banking and Financial Management (TA No. 3769) assisted the Government in drafting the Regulation on Standardized Procedure for Identification of Money Laundering at Financial Institutions. The Financial Sector Cluster Program (Subprogram III) includes continuing measures to assist the Government to address AML issues, including enactment of the AML/CFT law, immediately establishing a precursor to the financial intelligence unit (FIU), and upon passage of the law, formally establishing the FIU.

- Indonesia

ADB's second targeted TA aims to provide assistance for effective implementation of the AML regime that was established during phase I under ADB's TA 3849. Technical support for AML related activities will cover: (i) the development of nonbank AML supervision approaches, policies and procedures for the Directorate General of Financial Institutions (DGFI) in the Ministry of Finance; (ii) capacity building for financial sector supervisory agencies (Bapepam and DGFI); (iii) capacity building for Attorney General's Office and Judges; (iv) public awareness and education campaigns and programs; and (v) the development of a process for conducting AML computer-based training in outer provinces.

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<sup>1</sup> The four main components of the policy are: (i) assisting DMCs in establishing and implementing effective legal and institutional systems for AML/CFT; (ii) increasing collaboration with other international organizations; (iii) strengthening internal controls to safeguard ADB funds; and (iv) upgrading ADB's staff capacity.

- Lao PDR

The Bank of the Lao PDR has, as a reform measure under ADB's Banking Sector Restructuring Program, established an FIU Committee, which is the precursor to the FIU. The draft Law is currently under consideration by the Government and is expected to be submitted to the National Assembly shortly. The FIU will be established once the AML Law is enacted. AUSTRAC is undertaking a capacity building program for the FIU Committee and ADB is providing assistance to coordinate further technical assistance to build capacity within the Government to implement the new Law, once it is enacted. Further support is being proposed to assist the FIU to enter into AML information sharing and cooperation agreements with regulatory institutions in the Asian and Pacific region.

- Mongolia

ADB's Financial Sector Program builds on earlier TA support and includes reform measures to develop an effective AML/CFT regime. The TA supporting the introduction of the reforms aims to: (i) draft the implementing rules and regulations for the AML regime; (ii) establish an effective suspicious transaction monitoring system; and (iii) transfer knowledge and develop capacity for key institutions to implement an effective AML regime. Delay in the passage of the legislation is limiting the support being undertaken.

- Philippines

ADB's second AML TA is supporting: (i) detailed process mapping within the FIU to identify implementation bottlenecks and develop a strategy to address these; (ii) the development of effective compliance procedures and practices by supervisory authorities and covered institutions; (iii) drafting of key complementary legislation; (iv) the development of local training capacity and programs along with computer-based training material; and (v) establishment of a pairing/mentoring relationship between AMLC and an appropriate well-established regional FIU.

- Sri Lanka

Under the ADB's Financial Markets Program for Private Sector Development (Loan No. 2138-SRI), support is being provided for the drafting of an Anti-Money Laundering Bill. Submission of the draft Bill to the Cabinet is a required reform measure under the Program, which is scheduled for June 2006. Introduction of the AML Bill in Parliament is expected soon after that. The IMF is also providing technical assistance to draft the AML Bill. ADB will assist with the coordination of further technical assistance to build capacity within the Government to implement the Law once it is enacted.

- Thailand

Proposed technical assistance is aimed at helping Thailand achieve a higher level of compliance in the area of international cooperation within the framework of established international standards. Further work will focus on the assistance required.

- Viet Nam

ADB's proposed next TA will provide further support for the implementation of reform measures under the Second Financial Sector Program (Loan No. 1932). The targeted TA includes adopting AML measures by: (i) issuing an AML Decree and related regulations, (ii) creating a FIU, and (iii) joining international organizations related to AML, at least as an observer. The AML Decree is currently under consideration and is expected to issue soon. Technical assistance for capacity building for the FIU is being provided.

### **3. Status of APEC Cooperation Fund for Regional Trade and Financial Security Initiative**

- The Cooperation Fund for Regional Trade and Financial Security Initiative (the AML Fund), which was approved by the ADB Board in June 2004, has to date, received initial first year contributions from Japan and the United States of US\$1 million each, and Australia for A\$ 1.5 million. The Australian contribution covers the three years of the AML Fund. Replenishment discussions are underway with Japan and United States.<sup>2</sup> The AML Fund seeks to further strengthen assistance to DMCs to establish effective AML/CFT structures and systems and strengthen trade security regimes in line with international requirements. The first batch of three concept papers has been approved by donors. These cover support to Indonesia, Philippines and Thailand. The second batch with four project proposals currently under consideration by the donors, cover port, customs, aviation, and maritime security. Additional concept papers covering areas of International Ships and Port facilities Security (ISPS) code and regulator-oriented computer based training, trade data exchange and targeting, computer data recovery and analysis, cross border currency movements, and FIU software development ('FIU-in-a-Box') are being developed.

### **4. Studies – Best Practices to Regulate Value Transfer Services**

- A study is being undertaken as part of the first TA to Philippines, to assess how to introduce effective AML/CFT safeguards on cell phone based value-transfer services--this is an area where the Philippines is a pioneer in the application of technology. With increasing usage and low transaction costs from such cell phone and e-money services, there is potential for money laundering. A preliminary report will be made at the APG Annual General Meeting in July.

### **5. Publications/ADB's Internal AML Measures**

- Money laundering and combating terrorism issues are specialized and distinct from the professional disciplines normally undertaken by ADB staff. To assist staff and its developing member economies (DMCs), ADB's AML/CFT Toolkit was developed containing a wealth of operational information and links to other AML/CFT-related internet sites. The online AML/CFT toolkit is being continually updated to expand the available reference materials. ADB aims to facilitate research on AML/CFT topics and provide more links to relevant websites. See <http://www.adb.org/Documents/Others/OGC-Toolkits/Anti-Money-Laundering/default.asp>

- An AML Technical Assistance and Training Coordination Matrix and an ADB Internal AML Procedure Outline have been prepared to assist ADB officers and staff integrate AML objectives into their project work and related activities and to ensure coordination with other donors providing assistance in the Asian region. See [http://www.adb.org/Documents/Others/OGC-Toolkits/Anti-Money-Laundering/documents/AML\\_ta-matrix.doc/](http://www.adb.org/Documents/Others/OGC-Toolkits/Anti-Money-Laundering/documents/AML_ta-matrix.doc/)

- A Knowledge Management Applications tool to access reference materials covering Cross Border Security is also being developed and will be launched shortly.

- Internal training has been, and is being undertaken to upgrade and strengthen staff capacity and expertise to handle technical issues and respond swiftly and effectively to DMCs' requests for assistance. In addition, an internal AML Enhanced Due Diligence Working Group is

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<sup>2</sup> The AML Fund is expected to run for three years and is open to further contributions from other countries and organizations.

reviewing due diligence procedures and preparing a comprehensive AML Program for Compliance and Supervisory Procedures. The procedures, once adopted, will further strengthen ADB's internal control mechanisms and adherence to international best practices.

## **6. ADB/OECD Anti-Corruption Initiative for Asia-Pacific**

ADB's Anti-corruption Policy and activities are outlined on its website.<sup>3</sup> Support for governments' efforts toward effective and transparent systems for public service, anti-bribery and business integrity, and active public involvement is occurring through the ADB/OECD Anti-Corruption Initiative for Asia-Pacific. See <http://www1.oecd.org/daf/ASIAcom/>

To date, 25 Asia-Pacific governments have endorsed the anti-corruption action plan<sup>4</sup> (the Plan). Key objectives of the Initiative are aimed at supporting endorsing countries to implement the Plan on a national level. The Initiative also has a regional, web-based reference centre which publishes anti-corruption knowledge tools. See <http://www1.oecd.org/daf/ASIAcom/countries/> The Secretariat, which operates within ADB, provides technical advice to endorsing countries in the selection and implementation of priority reform areas and supporting projects, for each implementation phase. This support may include facilitating the liaison with the international donor community. The Secretariat may call upon the Initiative's Advisory Group for additional assistance if required.

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<sup>3</sup> ADB's Anti-corruption Policy and anti-corruption activities are set out at <http://adb.org/Anticorruption/default.asp>

<sup>4</sup> See Plan at <http://www1.oecd.org/daf/ASIAcom/ActionPlan.htm>