



Asian Development Bank

## REPORT TO THE APG ANNUAL MEETING

Perth, Australia, 23-27 July 2007

### 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*

An ADB expert supported the National Bank of Cambodia (NBC) to prepare for the introduction of the conference briefing on preparing for an AML/CFT Assessment was held at ADB Cambodia office FIU, with the development of terms of reference and a training program for staff. Following the adoption of the AML Law in May 2007, the next steps involve the adoption of the inter-ministerial sub-decree followed by the formal establishment of the FIU to monitor, assess and report on suspicious transaction reports (STRs) to the AML Board. Further technical assistance is to be provided as part of ADB's ongoing financial sector program reforms for the Government to implement these activities, and to formulate procedures and compliance programs in consultation with all relevant government agencies and reporting financial institutions.

The feasibility study of the IT requirements of NBC, under ADB's existing technical assistance included the requirements of the Bank Supervision Department and the FIU. ADB is currently processing a loan which will include financing for the NBC's IT system.

- *Indonesia*

ADB's second targeted TA provided technical support for AML related activities covering: (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

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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.

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.

While considerable progress has been made in strengthening AML-related regulations and supervision for banks, including the issuance in March 2007 of the National Strategy for the Prevention and Eradication of the Crime of Money Laundering in Indonesia (2007-2011) to develop systematic approach to addressing AML issues, the nonbank financial sector in Indonesia currently lags considerably behind in terms of effectiveness of regulation, supervision, as well as the capacity within covered institutions to comply. To reduce the risk of regulatory arbitrage and nonbank financial institutions being favored as conduits for money laundering activity, ADB's is processing a program for 2007 to strengthen regulations, supervision (capacity, enforcement powers, and sanctions), and capacity for compliance with a view to harmonizing the nonbank financial sector with the banking sector. Technical assistance is expected to support Indonesian Financial Transaction Reports and Analysis Centre (PPATK) and Bapepam-LK in capacity building for strengthening AML supervision and compliance and to work with industry associations to develop systematic capacity-building approach for nonbank financial institutions to improve compliance with AML regulations. The AML law requires amendment to comply with revised FATF 40+9 recommendations and, among other things, expand the scope of reporting parties, provide for reorganization of PPATK, and confer upon it additional powers—including the ability to conduct preliminary investigations.

- *Lao PDR*

The Bank of the Lao PDR has, as a reform measure under ADB's Banking Sector Restructuring Program, established an FIU Committee pursuant to the AML Decree but concerns relating to the very limited application of the Decree are still outstanding. Amendments are required to extend the application of the AML Decree to strengthen the AML regime while rules, procedures, and implementation guidelines must be issued to support the implementation of the Decree<sup>2</sup>. ADB is providing technical assistance to assist with judicial training, which includes raising the awareness of the AML/CFT provisions. The Government is taking measures to operationalize the FIU. UNODC and World Bank are also providing assistance.

- *Mongolia*

ADB's Financial Sector Program builds on earlier support and includes reform measures to develop an effective AML/CFT regime, including support 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.

- *Republic of the Philippines*

Phase two of the technical assistance provides support for sustained, effective implementation of the regime. Phase II consisted of several components which developed: i) a process map to provide a comprehensive and common frame of reference for the Government as well as interested development partners to ensure a more systematic and coordinated approach to implementation of the AML regime issues; ii) a strategy and monitorable implementation plan for strengthening compliance with suspicious transactions reporting requirements; iii) a strengthened legal and regulatory framework for AML including development of complementary legislation and regulation; iv) locally-based training programs and computer-based training materials to allow for

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<sup>2</sup> These include rules and procedures under Article 4 to specify how the detection, combating and deterring of money laundering shall be conducted. Article 13 requires a regulation to be issued to specify details of data collection while Article 24 requires a regulation to issue to specify the staffing structure of the FIU, and Article 25 requires a number of regulations and directions to issue regarding rights and duties. BOL and the Ministry of National Security must also issue the guideline for implementing the Decree under Article 34.

sustainable, cost-effective capacity building; and v) strengthened relationships between Philippine AML authorities and counterparts in selected other jurisdictions in the region.

- *Viet Nam*

Support was provided under ADB's Financial Sector Program (FSPL) II for the establishment of the Anti-Money Laundering Information Center (AMLIC). The State Bank of Viet Nam has issued guidelines to credit institutions on transaction reporting requirements, and establishment of internal anti-money laundering procedures. Similar guidelines to securities firms on their reporting requirements, know-your-customer requirements and needed internal anti-money laundering procedures are expected soon. AMLIC needs to be strengthened with more use of information technology, resources and staff. Guidelines will need to be developed and issued to financial institutions on transaction reporting and know-your customer requirements, and on development of internal anti-money laundering procedures. ADB is currently processing FSPL III to support further development and operationalization of AMLIC through adoption and implementation of its standard operating procedures, and finalization of a feasibility study for an IT system for information collection and analysis. AMLIC proposes to establish the IT system and increase staff to effectively implement Decree 74 and its related regulations for anti-money laundering.

### **3. Regional Training**

The Securities and Exchange Commission of Thailand is hosting and ADB is financing the Regional Seminar on Market Supervision under the APEC FINANCIAL REGULATORS TRAINING INITIATIVE which is being held 16 – 20 July 2007 in Bangkok, Thailand. Over 40 banking supervisors and securities regulators are being trained on supervision issues, including AML/CFT measures and the need for regional cooperation.

### **4. Border Controls and Aviation and Port Security**

#### **Brunei, Indonesia, Malaysia, Philippines East Asia Growth Area (BIMP- EAGA)**

A \$600,000 CIQS technical assistance has been approved to secure and facilitate regional trade by addressing some of the demand driven needs identified. A needs assessment of the BIMP-EAGA Customs, Immigration, Quarantine and Security (CIQS) fields will be developed focusing on meeting the ASEAN single window target of 2008. The CIQS forum enabled the BIMP-EAGA countries to become aware of sub-region wide donor activity as well as ensuring donor activity is well placed and demand driven. It is expected that the participatory process will serve to ensure more rapid and effective development of trade and security issues in the sub-region as well as serve as a template for other sub-regional configurations. A meeting of Directors' General of Customs for BIMP EAGA is to be held on 27-29 August

#### **Aviation**

The Pacific Aviation Safety/Security Office (PASO) project is the first ADB regional aviation sector loan and technical assistance grant and will serve as a template for further development and will harmonize the application of the International Civil Aviation Organization's (ICAO) Annex 17 security provisions throughout the eight PASO countries. The grant to PASO has now leveraged US\$200,000 from ICAO and NZ\$200,000 from New Zealand to complement and extend the project. Phase I implementation has been under way for the first half of 2007, with Phase II to be conducted throughout the second half of the year.

### **5. Countering the financing of Terrorism**

ADB staff joined a UNCTED country assessment team to monitor the implementation of Security Council resolution 1373 which requires Member States to take appropriate actions to counter terrorism.

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

- A study was undertaken to assess how to introduce effective AML/CFT safeguards on cell phone based value-transfer services--this is an area where the Republic of the Philippines is a pioneer in the application of technology. Fast-moving technology and new business models are bringing about the convergence of telecommunications and financial services. With increasing usage and low transaction costs from such cell phone and e-money services, there is potential for money laundering. This convergence demands the modification of the cash-based premise of current Anti-Money Laundering (AML) efforts.

A copy of the working paper entitled 'Effects of Cell phones on Anti-Money Laundering/Combating Financial Terrorism (AML/CFT) Wire Remittance Operations' is attached.

## **7. AML Toolkit / 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 developed an online AML/CFT Toolkit containing a wealth of operational information and links to other AML/CFT-related internet sites. The toolkit is continually being updated to expand the available reference materials. ADB aims to facilitate research on AML/CFT topics and provide more links to relevant websites. See [www.adb.org/Documents/Others/OGC-Toolkits/Anti-Money-Laundering/default.asp](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 [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/)
- Internal training has been, and is being undertaken to upgrade and strengthen ADB 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 continually reviewing due diligence procedures to further strengthen ADB's internal control mechanisms and to adhere to international best practices.