



FRTFSI



**COOPERATION FUND FOR
REGIONAL TRADE AND
FINANCIAL SECURITY
INITIATIVE**

**ASIAN DEVELOPMENT BANK
OFFICE OF THE GENERAL COUNSEL
MAY 2006**

FRTFSI: TRADE AND FINANCIAL SECURITY FOR DEVELOPMENT

This paper reviews the operations of the Cooperation Fund for Regional Trade and Financial Security Initiative (FRTFSI) and takes stock of the outcomes and outputs secured during the initial phase of operations. It also reviews how the initial contributions from Australia, Japan, and the United States of America (USA) have been allocated, and proposes projects and activities for going forward into the next phase.

I. BACKGROUND

1. The Asian Development Bank (ADB) approved, on 9 June 2004, the proposal to set up the FRTFSI. Contributions to the multi-donor trust fund came from the Government of the Commonwealth of Australia (AUS\$1.5 million over three years), and from the governments of Japan and the USA (with initial commitments of US\$1 million each). The FRTFSI became effective on 1 July 2004 for an initial period of 3 years.

2. The establishment of the FRTFSI allows ADB to take a more active role in regional anti-money laundering (AML) and Countering the Financing of Terrorism (CFT) capacity building activities and to support port security enhancement (including airports, cargo ports, and containers) and customs modernization efforts of its developing member countries. The U.S. Government has seconded an expert from their Treasury Department for a period of two years to assist ADB to implement the FRTFSI and work with operational departments to develop proposals for technical assistance projects. ADB's AML/CFT work is generally being undertaken as part of broader financial sector reforms. With official observer status at FATF¹, and the APG², ADB routinely reports to these bodies on its various AML/CFT and anti-corruption activities throughout the whole region.

3. The FRTFSI can be used for conducting feasibility studies, capacity-building activities, and development of policies, legislation, systems, and procedures related to trade and financial security. Priority is given to high-impact projects that can catalyze investments and further policy reforms in these areas, and that have a good chance of local or regional replication.

II. HIGHLIGHTS

4. Highlights

Scope of FRTFSI Activities

- ✓ A Peer Review Committee was established to 'market' the FRTFSI to ADB staff and to process project concept papers. It set a maximum of \$500,000 per project to ensure greater distribution of committed funds.
- ✓ The FRTFSI met the objective of spreading its funding over a wide variety of projects. Two batches of projects were approved and are currently in various

¹ The Financial Action Task Force on Money Laundering

² Asia Pacific Group, the FATF-styled regional body

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stages of implementation. These projects total \$2,550,000, and cover seven projects—three for anti-money laundering, two for border controls, one for port security and one for aviation safety and security.

- ✓ Countries/Economies which have benefited directly from projects funded by the FRTFSI span the breadth of APEC and include ADB's developing member countries (DMC) and middle income countries (MIC) of: Cambodia, Cook Islands, Fiji, Indonesia, Kiribati, Lao PDR, Malaysia, Papua New Guinea, the Philippines, Samoa, Solomon Islands, Thailand, Vanuatu, and Vietnam. ADB member country, Brunei Darussalam is also invited to attend regional training.
- ✓ The projects were developed in close cooperation with international security standards setters, i.e., the Financial Action Task Force (FATF), and its regional style body, the Asian Pacific Group (APG) on anti-money laundering, International Civil Aviation Organization (ICAO), International Maritime Organization (IMO), World Customs Organization (WCO), United Nations Office of Drugs and Crime (UN-ODC), and bilateral donors and organizations including the International Organization for Migration (IOM) and the European Commission (EC). These collaborative efforts have created or strengthened bonds between ADB and among these organizations to ensure sustainable, coordinated interaction in the future.
- ✓ ADB's reputation in the field of AML, border controls and air and sea port security expanded to the point that countries began making more inquiries of, and requests to, ADB in these areas. At this stage, the FRTFSI is near depleted and ADB is unable to accommodate these demands. ADB has tried to meet these requests with the use of internal funds and donor teaming. Lao PDR, Cambodia, and Mongolia are examples of countries where technical assistance could not be funded via the FRTFSI, but that were assisted by ADB using alternative methods. Sri Lanka and Bangladesh are still looking for a solution to their AML challenges, as ADB does not have the resources to accommodate their needs.
- ✓ From the lessons learned from the FRTFSI funded projects, assistance has been provided for projects outside the FRTFSI umbrella to develop AML internal procedures for state owned commercial banks, as well as border controls and trade security capacity building.

ADB Internal Capacity Building

- ✓ An AML/Cross Border Security Network was established to better inform ADB staff on AML/CFT capacity building activities and trade and port security topics. Twenty three presentations have been made to staff by various expert speakers, including representatives of Globe G-Cash, a cell phone based value transfer system just two weeks after it launched the system. (G-Cash now exceeds 1.2 million subscribers.)
- ✓ An Internal AML/Due Diligence Compliance working group has been established to improve ADB's internal due diligence and Know Your Customer (KYC) capability.

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- ✓ The FRTFSI team has assisted ADB's Private Sector Operations Division on AML/Anti-fraud program architecture for emerging private sector financial institutions and the wireless value transfer within the region.
- ✓ The FRTFSI team has drafted a study on the opportunities for fraud and anti-money laundering created by the wireless value transfer systems. These systems, with the advent of the third generation mobile phones, put the internet in everyone's hand. The study, to be launched at the 2006 APG Annual Meeting, shows that the developing technology will have a huge impact on AML/CFT operations, particularly regarding changes in determining evidence, where value lies, and will affect current money laundering investigation and prosecution operations.
- ✓ The FRTFSI team has assisted the Mekong Regional Department's evaluation of border controls along the East West Economic Corridor (EWEC) straddling Vietnam, Laos and Thailand across Greater Mekong Subregion (GMS). This evaluation highlighted the need for strengthening enforcement targeting capability, border enforcement systems, data collection efforts, communications capability along the highway as well as at border crossings, and the use of Radio Frequency Identification Devices (RFID) in promoting safe and secure trade along the corridor. The GMS Business Forum has picked up on this initiative and is promoting the enhancements of systems to its GMS member countries
- ✓ The FRTFSI team has assisted in the development of border controls and anti-money laundering programs through the Central and South Asia Transport and Trade Forum (CSATTF) in support of ADB's regional integration efforts.
- ✓ The FRTFSI team has assisted in bringing the UN-ODC and ADB together to formalize their interaction on anti-money laundering, anti-corruption, border controls, and development, through the signing of a Letter of Intent to better coordinate efforts and work together on related projects.

Anti-Money Laundering/ Countering the Financing of Terrorism

- ✓ ADB hosted the first donor coordination meeting for AML and trade security within the Philippines which led to the Philippine Anti-Money Laundering Council (AMLC) setting up regular donor coordination meetings with donor co-sponsors, with donors co-hosting the meetings. USAID has been co-hosting the past several meetings. It is anticipated that ADB will replicate this approach in other countries.
- ✓ ADB's technical assistance contributed to the removal of both Indonesia and the Philippines from the Financial Action Task Force on Money Laundering (FATF) list of Non-Cooperative Countries and Territories (NCCT) in February 2005. Further assistance continues under FRTSFI funded projects, particularly during the critical period following the NCCT delisting, to maintain the reform momentum. Such assistance is being closely coordinated with USAID's and AusAID's activities.

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- ✓ ADB's consultant who was financed under the Indonesian technical assistance project and who provided training and mentoring to the Attorney General's Office in Jakarta in the area of prosecution and adjudication has prepared content material for the planned UN-ODC Computer Based Training (CBT) modules on asset forfeiture.
- ✓ A workshop was held in Jakarta, Indonesia as part of an FRTFSI grant on AML for the Indonesian Securities Industry. The well-received event was co-sponsored by Asian Development Bank, Capital Market Executive Agency (Bapepam), the Association of Indonesian Securities Companies (APEI), and the Financial Services Volunteer Corps (FSVC), as well as the Center for Financial Transaction and Reporting Analysis (PPATK) which is the Executing Agency under the ADB's technical assistance project. Two hundred fifty people attended the event, increasing market awareness of the importance of AML programs.
- ✓ Based on efforts by the FRTFSI-funded ADB consultants, a draft Indonesian AML manual for prosecutors has been prepared and the Attorney General's office is preparing for private sector consultations in July as part of the process leading to official issuance of the manual later this year.
- ✓ In Thailand, a three-year action plan and legal analysis on compliance with the requirements for international cooperation have been completed for approval and implementation by the Government.
- ✓ A high level workshop for GMS countries was recently organized and held in Bangkok, Thailand as part of the FRTFSI-funded Thailand project. The workshop emphasized the need for regional cooperation for effectively implementing anti-money laundering measures, and combating terrorist financing. Furthermore, regional support, mainly from Malaysia and Thailand, was offered for countries such as Cambodia and Lao PDR, which are just introducing their AML/CFT regimes. In addition to technical assistance from IMF/WB, this regional support will be particularly meaningful at the operational level.
- ✓ In the Philippines, teaming with US Treasury's Office of Technical Assistance (OTA), US Homeland Security and the FBI, the FRTFSI has provided five CFT training sessions for law enforcement officers around the country and five more are planned through out the country.

Border Controls

- ✓ The first Brunei Darussalam, Indonesia, Malaysia, the Philippines - East Asean Growth Area (BIMP-EAGA) trade and financial security donors meeting was hosted and held at ADB Headquarters in Manila, with international standards setters, WCO, IMO, IOM, ILO, EC, and bilateral donors to renew donor focus and interest on the subregion. The Deputy Secretary General of the WCO addressed the meeting regarding WCO initiatives. Following the meeting, AusAID accelerated the effort to strengthen

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border security capabilities in the sub-region by increasing funding to the Mindanao Economic Development Council (MEDCo) which serves as BIMP-EAGA's Customs, Immigration, Quarantine and Security (CIQS) coordinating mechanism.

- ✓ The second BIMP-EAGA trade and financial security donors meeting was recently hosted and held at ADB Headquarters in Manila, with international standards setters and bilateral donors invited by ADB to collaborate on a high level workshop on CIQS harmonization and trade and port security which ADB has scheduled for June 2006. The donor meetings are intended to provide a forum for bilateral and multilateral donors to support each others' efforts to ensure sustainable progress towards regional integration and poverty reduction. The proposed workshop in June 06 will emphasize the need for regional cooperation and discuss the elements necessary to help participating member countries meet international standards. The working group will also provide the opportunity for donors and BIMP-EAGA countries to discuss on-going projects and future plans to avoid duplication of efforts, alignment of priorities and ensure more efficient use of resources
- ✓ In partnership with US Homeland Security and US Treasury OTA, six training sessions are scheduled to be offered in various centers around the Philippines for border control and law enforcement agencies in the identification and proper handling of cash or negotiable instruments in transit across border control points.
- ✓ The FRTFSI team and the US Embassy delegate explained the Numerically Integrated Profiling System (NIPS) now know as Digital Analysis and Research Tool (DAART) to senior members of the Philippine Government which led to an official request for training and data exchange with the United States.
- ✓ These targeting systems NIPS/DAART, which are commercially available, were also discussed with the Malaysian FIU who indicated an interest in using them in the BIMP-EAGA area for regional data analysis, anti-money laundering and trade targeting.

Aviation and Port Security

- ✓ The Pacific Aviation Safety/Security Office (PASO) project is the first ADB aviation sector loan and technical assistance grant in the region. It is also the first ADB loan to an intergovernmental organization. It 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 seven 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.
- ✓ The IMO regional representative is a frequent visitor to ADB and IMO staff has assisted in designing and drafting the FRTFSI and non-FRTFSI port security technical assistance programs.

III. KEY OUTPUTS SUMMARY

5. Two batches, containing seven project concept papers, have been submitted to the FRTFSI donors. Batch 1, with three technical assistance proposals, was approved and the corresponding projects are currently on-going. Batch 2, consisting of four technical assistance concept papers, was approved by the donors and the projects are currently under processing. The current status of the Batch 1 and Batch 2 technical assistance grants is given in Appendix 1. A more detailed update is provided in Appendix 2.

6. As we have seen, anti-money laundering efforts build capacity and not only to deter terrorist financing but also improve revenue collections and fight against corruption. Port security enhancements lead to more secure and efficient trade and transport, while reducing cargo theft and contraband movements, particularly when bridged with border control efforts. Effective border controls in turn, lead to the detection of money laundering, contraband, and terror/criminal suspects, and cause other benefits such as improved revenue collection and quarantine controls.

ADB collaboration with international organizations (IMO, WCO, UN-ODC, etc.), the private sector, and bilateral donors catalyzes additional support for its programs and ensures maximum outcomes for expenditures made.

IV. FINANCIAL STATUS

7. Committed funding for Batch 1 and 2 amounted to \$2,550,000. As of 17 April 2006, disbursements under approved projects have reached about \$349,000, and the FRTFSI has uncommitted funds of about \$0.246 million cash on hand (inclusive of investment accounts, investment and interest income). A final Australian remittance of AUS\$250,000 (from its 3 year commitment of AU\$1.5 million) is expected by 30 June 2006.

8. Out of the total committed contributions from the three donors and the interest and investment income so far earned by the account from the Australian and Japanese commitments, and allowing for a .05% ADB administration fee, the FRTFSI will have a final balance of about \$470,511.53 available for further commitment. Financial statements are attached as Appendix 3.

9. Taipei,China and New Zealand considered donations to the FRTFSI during the first quarter of 2006: Taipei,China proposed a US\$500,000 contribution, however due to a naming convention issue Taipei,China made their donation direct to APEC.³ New Zealand decided to co-finance NZD200, 000 as its contribution to the FRTFSI work through a project targeting the Harmonization of Pacific Civil Aviation Safety and Security Regulation project. ADB received the NZD200, 000 (equivalent to US\$132,000) as a cofinancing grant under the project. New Zealand is currently considering a larger untied commitment directly to FRTFSI.

³ ADB naming protocol requires the title of "Taipei,China" on all official documentation. Taipei,China wanted to be identified by its APEC title Chinese Taipei, which ADB, due to its protocol requirements, could not accommodate.

V. GOING FORWARD

10. Projected highlights of the next nine months of FRTFSI activity is expected to accomplish the following objectives;

- The completion of the Philippine anti-money laundering process map, the cell phone value transfer report, and the forensic accounting program established and being taught at the University of the Philippines.
- The Pacific Aviation Safety/Security Office (PASO) loan will be signed and the air safety and security harmonization will begin in the PASO countries.
- The Indonesian AML project will be completed.
- The BIMP-EAGA CIQS project will be underway with collaboration from the IMO, WCO, IOM and other donors.
- The Indonesian Port loan documentation will be signed and the port security portion of the project will be initiated.
- The Thailand project, covering regional cooperation on AML/CFT will be completed.

11. On the basis that further commitments will be forthcoming from the donors for the next phase of the FRTFSI, there are a number of concept papers in the pipeline, amounting to over \$9,250,000. Details of these projects are outlined in Appendixes 4 and 5 and include the following:

- (i) A computer-based training program on the international ships and port facilities security (ISPS) code (\$400,000);
- (ii) Regional port security enhancements (\$400,000);
- (iii) Regional trade transparency capacity building for trade data collection and AML targeting (\$500,000);
- (iv) Further studies on the possible effects of the fast-evolving 3G mobile technology on value transfer activities of money launderers terrorist financiers and other criminal elements, the development of strategies and improved capabilities of member countries to address the ill-effects of such technology innovations on their AML/CFT efforts (\$1,500,000);
- (v) Automated Fingerprint Identification System (AFIS) – A country assessment and needs analysis are to be undertaken, with resulting systems configuration and cost benefit analysis for its use by bodies coordinating public finance, safety, health, and security. (\$500,000)

12. Without further commitment from the donors, ADB is unable to consider requests from its developing countries to undertake the action plans that have been developed directly as part of the capacity building under FRTFSI funded projects or indirectly via related projects, as well as the further work needed to fully implement their AML/CFT regimes and enhance trade and port security. As noted, there is only enough funding for one additional technical assistance grant.

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13. Clearly the FRTFSI has now reached a momentum where critical assistance is being sought by developing member countries. ADB is recognized both regionally and internationally as having the capacity to successfully implement valuable technical assistance and undertake capacity building in the Asia Pacific region. It is also providing a 'large tent' under which international standards-setting organizations (IMO, WCO, UN-ODC, etc.), the private sector, and bilateral donors are able to come together to develop and implement integrated programs based on domestic and regional development needs. ADB is successfully leveraging its experience gained under the FRFTSI funded projects to enhance its financial, trade, and transport sector programs and projects across the region. It is also impacting operations covering regional integration as a means to reduce poverty.

14. ADB will, as far as possible, continue this collaboration without further funding commitment, but the gains over the last two years will quickly be lost. Development work is not short term and donors are requested to consider these factors, as well as the extensive successes already seen, when determining the further funding commitments that will ensure sustainable AML/CFT regimes and secure trade, transportation, and ports within the Asia Pacific region.

For further information, please refer to the appropriate Appendix.

Appendix 1: Summary of Concept Papers Forwarded to Donors

Appendix 2: Details of Concept Papers and Technical Assistance Grants

Appendix 3: FRTFSI and Donor Financial Statements.

Appendix 4: Summary of Batch III proposed Concept Papers

Appendix 5: Details of Batch III Concept Papers

Status of On-Going TAs and Proposals

Country	Project Title	Funding	Status 24 April 2006
A. Batch I Proposals			
Indonesia	Development of an AML Regime (Phase II)	\$500,000	ADB Management approved TA 23 Dec 2004, 70% completed. Completion est. 3rd quarter 06
Philippines	Strengthening the AML Regime (Phase II)	\$400,000	ADB Management approved TA 24 June 2005, 50% completed. Completion est. 4th quarter 06
Thailand	Promoting Cooperation on AML/CFT	\$300,000	ADB Management approved TA 10 June 2005, 65% completed. Completion est. 3 rd quarter 06
	Total Batch I	\$1,200,000	
B. Batch II Proposals			
Indonesia	Capacity Building for Improving Indonesian Port Security System	\$300,000	Donors have approved concept paper. TA prep under way. Delivery dependent on loan signing in early June 06
BIMP-EAGA (SR)	Support for Customs, Immigration, Quarantine, & Security Harmonization	\$500,000	Donors have approved concept paper. TA prep underway. Will merge with Port and Security Working Group for administrative efficiency
BIMP-EAGA (SR)	Port and Trade Security Working Group	\$100,000	Donors have approved concept paper. TA prep underway. Will merge with CIQS harmonization for administrative efficiency.
Pacific Region	Harmonization of Pacific Civil Aviation Safety and Security Regulation	\$450,000	Donors have approved concept paper. TA proposal done. Related Loan signed 27 October 2005*. TA expected to start 1 st quarter 06 after loan effectiveness.
	Total Batch II	\$1,350,000	

Loan 2183 Establishment of Pacific Aviation Safety Office Project signed 27 October 2005 and effectiveness expected by June 2006.

**Brief Description and Status Concept Papers and Technical Assistance Grants
Cooperation Fund for Regional Trade and Financial Security Initiative
UPDATE: 24 April 2006**

Batch 1

Indonesia – Development of an AML Regime (Phase II) \$500, 000

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 the following areas: (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.

Substantial parts of the TA are completed. A major securities industry AML workshop was held in Jakarta the first week of Feb. 2006. The non-bank and legal/ judicial programs are for the most part completed. The TA provided substantial technical expertise for a Computer Based Training program on asset forfeiture and removal through UN-ODC. A draft AML manual for prosecutors has been prepared and Attorney General's office is planning socialization/industry consultations in July as part of the process for an official issuance in 2006. TA completion is anticipated in the third quarter of 2006.

Philippines – Strengthening of the AML Regime (Phase II) \$400,000

The first phase of technical assistance to the Philippines to strengthen Government's AML efforts provided support for the establishment of key elements of an AML regime. Phase two of the technical assistance is aimed at providing support for sustained, effective implementation of the regime and consists of several components: (i) a process map that is intended to provide a comprehensive and common frame of reference for the Government as well as interested development partners to allow for a more systematic and coordinated approach to implementation issues; (ii) a strategy and monitorable implementation plan for strengthening compliance with suspicious transactions reporting requirements; (iii) 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 sustainable, cost-effective capacity building; and (v) strengthened relationships between Philippine AML authorities and counterparts in selected other jurisdictions in the region.

A draft of the process map is now being finalized and will be circulated to stakeholders for feedback. It is anticipated that the process map will serve as key tool for Government and interested development partners in the planning and coordination of further efforts in strengthening the regime and addressing implementation issues. The process map will also serve as a key input into some of the other components under the TA (now in various stages of implementation). Development of locally-based training programs in forensic accounting in collaboration with the University of the Philippines is

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expected to formally commence in June, while installation of AML-related computer-based training modules in collaboration with UNODC is expected to occur shortly with the recent establishment of a computer-based training center in the financial intelligence unit with support from USAID. It is anticipated that activities under phase two will be completed by fourth quarter 2006.

Thailand – Promoting Cooperation on AML/CFT

\$300,000

The technical assistance grant will help Thailand achieve a higher level of compliance in the area of international cooperation within the framework of established international standards. The first of the two TA components will assist the Government to: (i) reassess the legal, institutional, and procedural requirements for conforming to the FATF recommendations on international cooperation; and (ii) formulate an action plan through consultation with all stakeholders, including government agencies, the private sector, and international and regional AML-CFT related organizations. The second component involves training sessions for officials in the Mekong region, including measures for establishing the legal and institutional framework for an AML-CFT regime and cross-border issues.

The 3-year action plan and legal analysis on compliance with the requirements for international cooperation have been completed for approval by the Government. A train the trainer seminar for the Thai officials and a high level workshop for the GMS countries were organized at the end of April 2006. The seminar emphasized the importance of international cooperation, particularly among the regional countries, for effective functioning of the AML/CFT regime.

Batch 2

Indonesia

Capacity Building for Improving Indonesian Port Security System

\$300,000

The technical assistance grant will help the Government improve its port security by effectively implementing the ISPS Code. The TA will support the objective by (i) translating the ISPS Code's guidelines into practical manuals, (ii) training Government officials undertaking the ISPS Code implementation, and (iii) preparing risk assessment and port security plans for selected ports.

The TA will result in trained and qualified staff, equipped with proper guidelines to undertake technical field inspection and monitoring, and thus improve the efficiency of security system in Indonesian ports. The TA will produce: (i) practical guidelines, (ii) training materials, and (iii) action plan for sustainable port security enhancement.

The technical assistance grant will begin following the ADB Board approval of the INO: Interisland Transport (Ports) (REG) (Proj. No. 34140-01). The loan is expected to be approved the second week of May 06. TA fact finding will begin at that time. It is anticipated that activities under the TA will be completed by second quarter 2007.

BIMP-EAGA Sub region

\$500,000

Support for Customs, Immigration, Quarantine, & Security Harmonization

The technical assistance will support strengthening and harmonization of cross-border procedures in BIMP-EAGA. Establishment of a more harmonized and effective set of cross border procedures and support for their effective implementation will help improve

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port and shipping/supply chain security while reducing unnecessary steps—allowing for more seamless as well as secure movement of people and goods.

The TA will support the establishment of a cross-country consultative CIQS forum, the development of a CIQS harmonization strategy and implementation plan, and undertaking of feasibility studies for strengthening CIQS-related facilities for selected ports. It will also provide support, where feasible, for the development and implementation of a “single window” pilot for selected ports.

AusAID (Philippines) has been providing support for the institutional strengthening of the Mindanao Economic Development Council which is also the BIMP-EAGA focal agency for CIQS-related matters. Work under this project will build upon the institutional foundations developed under the AusAID initiative and will proceed in close collaboration with it.

A donors meeting for BIMP-EAGA was held 29 March to schedule the first BIMP-EAGA, four nation port and trade security working group in late June or early July. Funding for this effort will come from internal ADB sources. TA fact finding will take place over the next month and will involve close consultations with the concerned countries as well as key development partners including Japan, Australia and the US. It is recommended to combine this project proposal with the closely-related and complementary port and trade security working group project proposal below to allow for more efficient TA processing and administration. It is anticipated that activities under both the TA's will be completed by third quarter 2007.

BIMP-EAGA Sub region - Port and Trade Security Working Group \$100,000

The technical assistance will support networking and capacity building for relevant officials concerned with port and trade security related issues in BIMP-EAGA. In particular, it will support the establishment of a regular cross-country forum for sharing information and expertise on port and trade security related matters to allow for strengthening and tighter integration of efforts in this area. Outputs will include: (i) a needs-based training assessment and development of relevant training materials, (ii) an action plan for networking regional staff and sharing knowledge, and (iii) a needs assessment for further support in this area.

This project proposal was merged with the closely-related and complementary CIQS project proposal to allow for more efficient TA processing and administration (please see above).

Pacific Region

Harmonization of Pacific Civil Aviation Safety and Security Regulation \$450,000

The goal of the project is to enable state-owned airlines and airports in the Pacific region to meet all international requirements for safety and security. It will create a consistent and efficient operating environment for countries in the Pacific region (including the Cook Islands, Fiji Islands, Kiribati, Papua New Guinea, Samoa, Solomon Islands, and Vanuatu) by designing and supporting implementation of up to date regulatory procedures and oversight.

The project will increase aviation safety and security in member countries in compliance with international standards. It will ensure that laws, regulations, technical documentation, and procedures are current, compliant with ICAO requirements, and

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harmonized across the region. A fragmented system will be replaced with a consistent and proactive operating environment, thus improving safety and security and reducing costs. It will create economies of scale that allow PASO to become financially self-sustaining by lowering costs and improving service quality.

The technical assistance grant is dependant on the ADB loan 2183 "Establishment of Pacific Aviation Safety Office Project" signed 27 October 2005. It is expected to become effective by June 2006. It will serve as a template for further development and will harmonize the application of ICAO's Annex 17 security provisions throughout the seven 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 TA. It is anticipated that activities under the TA will be completed by third quarter 2007.

**ASIAN DEVELOPMENT BANK
ADMINISTRATOR FOR TECHNICAL ASSISTANCE GRANT FUND
COOPERATION FUND FOR REGIONAL TRADE AND FINANCIAL SECURITY INITIATIVE**

STATUS OF GRANT (CONTRIBUTION)
As of 31 March 2006
(Amounts in US dollar)

	<u>JAPAN</u>	<u>AUSTRALIA</u>	<u>USA</u>	<u>TOTAL</u>
		(AUD 1,500,000)		
TOTAL CONTRIBUTION COMMITTED	1,000,000.00	1,038,462.73	b/ 1,000,000.00	3,038,462.73 ^{a/}
Gain (loss) arising from change in value of currency	-	29,212.30	-	29,212.30
NET CONTRIBUTION AVAILABLE				
Amount received Receivable from the Gov't of Australia (AUD250,000)	1,000,000.00	889,025.00	1,000,000.00	2,889,025.00
	1,000,000.00	178,650.03	1,000,000.00	178,650.03
	1,000,000.00	1,067,675.03	1,000,000.00	3,067,675.03
Add: Income from investments	37,038.07	28,141.28	-	65,179.35
Interest income	11,418.78	10,885.33	43,685.99	65,990.10
Gain/(loss) on foreign exchange transactions	(48.99)	(48.98)	(48.99)	(146.96)
TOTAL AMOUNT AVAILABLE	1,048,407.86	1,106,652.66	1,043,637.00	3,198,697.52
Less amounts utilized for:				
Project expenditures (Statement 2)	(123,082.44)	(123,082.44)	(85,712.87)	(331,877.75)
ADB administration cost	(6,154.12)	(6,154.12)	(4,285.65)	(16,593.89)
Financial expense - bank charges	-	-	-	-
UNUTILIZED BALANCE	919,171.30	977,416.10	953,638.48	2,850,225.88 ^{c/}
Less: Outstanding commitments				(868,122.25)
Reserve for ADB Administration Cost				(43,406.11) ^{d/}
UNCOMMITTED BALANCE				1,938,697.52
Less: TA's Approved But Not Yet Effective				
6259/REG: Aviation Safety Legislative & Regulatory Review				(450,000.00)
Reserve for ADB Administration Cost				(22,500.00)
UNCOMMITTED BALANCE AVAILABLE FOR NEW COMMITMENTS				1,466,197.52

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^{a/} Represents the sum of utilized and unutilized contributions expressed in US\$ equivalents.

^{b/} Undrawn contribution in local currency are translated at the applicable rate of exchange as of 31 March 2006.

^{c/} Represented by:

Cash in bank	333,981.23	359,126.44	953,163.86	1,646,271.53
Investments	582,123.84	436,592.86	-	1,018,716.70
Accrued interest	77.86	58.39	-	136.25
Undrawn contribution (AUD 250,000)	-	178,650.03	-	178,650.03
Interfund receivable	160.89	160.89	160.89	482.67
Advances	4,574.01	4,574.01	1,074.01	10,222.03
Less:	(101.63)	(101.62)	-	(203.25)
	(1,644.90)	(1,644.90)	(760.28)	(4,050.08)
	<u>919,171.30</u>	<u>977,416.10</u>	<u>953,638.48</u>	<u>2,850,225.88</u>

^{d/} Represents 5% of the outstanding commitments.

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APPENDIX 3A

COOPERATION FUND FOR REGIONAL TRADE AND FINANCIAL SECURITY INITIATIVE AMOUNT AVAILABLE FOR FUTURE COMMITMENTS

			<u>JAPAN</u>	<u>AUSTRALIA</u>	<u>USA</u>	<u>TOTAL</u>
Amount Received			1,000,000.00	889,025.00	1,000,000.00	2,889,025.00
Receivable from Australia (June '06)			-	178,650.03	-	178,650.03
TOTAL COMMITTED			1,000,000.00	1,067,675.03	1,000,000.00	3,067,675.03
Less: Loss on forex			(48.99)	(48.98)	(48.99)	(146.96)
NET AMOUNT COMMITTED			999,951.01	1,067,626.05	999,951.01	3,067,528.07
Add: Income from investments			37,038.07	28,141.28	-	65,179.35
Interest income			11,418.78	10,885.33	43,685.99	65,990.10
Interest to be returned to the US					(43,685.99)	(43,685.99)
			48,456.85	39,026.61	-	87,483.46
TOTAL AMOUNT AVAILABLE			E=C+D 1,048,407.86	1,106,652.66	999,951.01	3,155,011.53
Less: Batch I & II Proposals						
Batch I	INO	500,000.00	166,666.67	166,666.67	166,666.66	500,000.00
	PHI	400,000.00	133,333.33	133,333.33	133,333.34	400,000.00
	THA	300,000.00	150,000.00	150,000.00	-	300,000.00
			F 450,000.00	450,000.00	300,000.00	1,200,000.00
Batch II	INO	300,000.00	100,000.00	100,000.00	100,000.00	300,000.00
	BIMP-EAGA	500,000.00	166,666.67	166,666.67	166,666.66	500,000.00
	BIMP-EAGA	100,000.00	33,333.33	33,333.33	33,333.34	100,000.00
	PASO	450,000.00	150,000.00	150,000.00	150,000.00	450,000.00
			G 450,000.00	450,000.00	450,000.00	1,350,000.00
Less: ADB Admin Fees			45,000.00	45,000.00	37,500.00	127,500.00
Provision for Audit Fees		7,000.00	2,333.33	2,333.33	2,333.34	7,000.00
(end Phase I - expected July 07)						
			H 47,333.33	47,333.33	39,833.34	134,500.00
NET AMOUNT AVAILABLE FOR FUTURE COMMITMENTS			I = E-F- G-H 101,074.53	159,319.33	210,117.67	470,511.53

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Appendix 4

Country	Project Concepts	Estimated Funding Required	Remarks
C. Batch III Possible Projects Proposals			
Regional	Parallel trust fund	\$50,000	Facilitate the formation of a Private sector/NGO parallel fund to support FRTFSI by processing complementary in-kind – e.g. of equipment (computers, radios, VSAT communications etc.) software, expert services, and other urgent program requirements.
Regional	Computer Based Training (CBT) for AML	\$1,000,000	Collaboration between UN-ODC and DMCs to implement select CBT programs that can address local concerns and may be replicated. Already proven and underway under Philippine and Indonesian FRTFSI TA's
Regional	Development of an ISPS CBT training program in collaboration with IMO	\$500,000	Collaboration with IMO content experts in developing ISPS CBT for port security use and regional roll out.
Regional	WCO/APG Regional trade Databases/Information Exchange Center	\$300,000	Collaborative effort between WCO/APG in development of comprehensive trade data bases and facilitating exchange of information to enhance border control capacity to address money laundering, contraband and revenue generation
BIMP-EAGA	Capability/compatibility/inte roperability survey of intergovernmental communications in the BIMP-EAGA region	\$400,000	To provide accurate and comprehensive information to enable BIMP-EAGA countries to design appropriate data and voice connectivity for the use of border and port security entities in the sub region.
Regional	3G mobile value transfer preparation	\$1,500,000	The mobile value transfer market in Asia is exploding. The definition of money, where value lies, and the related rules of evidence will change dramatically as the internet becomes available to virtually every mobile phone subscriber including terrorists and money launders. This TA will work with concerned public

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Country	Project Concepts	Estimated Funding Required	Remarks
			and private sector organizations to design strategies, provide assistance to improve security and reduce the possible use of new value transfer technologies in financial crimes including terrorist financing. FRTFSI would team with other countries and organizations already working in the field.
Regional	Money Services Businesses (MSB'S)	\$500,000	Study to identify the size of, and issues related to illicit use of MBS and related the problem; explore avenues of legitimate migration to more transparent systems and methods of systematically controlling illegal behavior by mapping the existing systems, identifying the deficiencies in those systems, providing training and developing a CBT program to address the entire process if none exists.
Regional	Retail sales and other micro-data	\$500,000	Data collected from commercial sources, tax authorities, and law enforcement agencies and financial intelligence units can be used to identify retail locations engaged in money laundering. Regionally, transaction data at the small retail level is very spotty at best, non-existent at worst. The TA would seek to identify remedies in this area.
Regional	Automated Fingerprint Identification System (AFIS) country assessment.	\$500,000	Conduct country assessments, needs analysis, systems configuration, and cost benefit analysis on the use of Automated Fingerprint Identification System (AFIS) to enhance public finance, health, safety and security. \$500,000

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Country	Project Concepts	Estimated Funding Required	Remarks
Regional	Trade Financing as a money laundering indicator	\$300,000	ADB will track and analyze trade flows, patterns and trends within the region focusing on priority countries with the end view of improving enforcement as it relates to trade based money laundering and countering financing of terrorism.
Regional	Financial Intelligence Units (FIU)/Trade Transparency Unit (TTU) "FIU in a Box"	\$500,000	Development and implementation of financial/trade analysis software, in collaboration with US Department of Homeland Security (DHS), WCO and other donors.
Regional	Sustainable Training Programs	\$400,000	Forensic Accounting and Computer Data Recovery and Analysis courses infused into local universities in priority countries and migrated through out the region.
Regional	Process Mapping	\$500,000	'Know before you go' approach with process mapping of existing AML/CFT systems, to analyze the various aspects and their interrelatedness from detection through conviction. The concept is being tested as part of Batch 1 Strengthening the PHI AML Regime (Phase II). If successful it will be rolled out in high risk areas.
Regional	Teaming and Mentoring For AML, border controls and port security.	\$400,000	Newly formed FIU's teamed with an established, effective one in the region. The approach permits closer operational and professional ties as well as educational opportunities. Port security - model ports could serve as mentors to sister ports that have not met the ISPS code requirements or are high risk.
Regional	Regional integration Customs Immigration Quarantine and Security (CIQS) effort	\$1,500,000	Improved border controls to address money laundering, smuggling, hazardous materials, crime, disease, trafficking in persons, terrorist transit and revenue generation.
Philippines	Revolutionary Taxes	\$400,000	This area needs to be researched, strategies developed and action plans implemented involving the

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Country	Project Concepts	Estimated Funding Required	Remarks
			public and private sector.
Regional	Situational Training and Testing – Disaster response	\$500,000	The Objective of the TA would be to train, then test, at various levels the adequacy of national and regional disaster responses to a particular incident to determine in a practical way how to remove impediments to successful implementation.
	Total Batch III	\$9,250,000	

Going Forward - Batch III

Funding of \$4,625,000 dollars per year beginning third quarter 2006 and 2007 or a total of \$9,250,000 million could be used with great effect.

In the first two Batches of technical assistance projects ADB tried to maximize donor funds by teaming up with other donors and providers, utilizing sustainable training programs and techniques, and supporting as much as possible all the priorities identified by the Fund. Going forward, additional funds in the amount of \$4,625,000 million for the third quarter of 2006 and for 2007 or \$9,250,000 total are sought to build upon and extend the positive work of Batches 1 and 2, and to address emerging areas of concern, as described below. Projects emphasize scalability and replicability across the range of DMC's. As with on-going projects, additional funding received will be leveraged by collaborating with other donors when and where appropriate.

Parallel trust fund

There are situations where DMC's need equipment and services that are relatively inexpensive (less than \$50,000) and are therefore ineligible for a loan or fall outside the technical assistance framework. An example of this is the Philippine Anti-Money Laundering Council that had to wait nearly a year to obtain 15 computers for its learning center. A multinational company was willing to help but asked to have their donation tied to Intellectual Property Rights enforcement – which is an AMLC area of interest. There was no assistance modality available to easily vector the needed equipment.

In cases like this a donation from the private sector or NGO community could have provided a quick and efficient resolution. ADB however is not permitted to accept in-kind donations or tied funds. There are numerous corporate and private sector donors eager to give material support to FRTFSI programs through in-kind donations provided their areas of interests (e.g. cargo theft, intellectual property rights violations, financial system security, smuggling, trade facilitation and general good governance) are also addressed. To make a material difference, ADB is seeking a way to support the development of a self-sustaining parallel vehicle that can be administered by an outside/independent party and provide tax exemptions for said donations, consolidate various donors' efforts and match donors' areas of priority with recipients' needs. The in-kind fund would work closely with FRTFSI and ADB to support its areas of interest of AML, border controls and port security. **Approximate cost \$50,000 start up and seed money**

A. Expansion of On-going Collaborative Undertakings with Other International/ Regional Organizations

Computer-Based Training

Computer Based Training (CBT) is an ideal methodology for providing training on standard/best practices for a large number of people in a short period of time. The modules will focus on anti- money laundering/ countering terrorist financing, border controls and port security. Each module will be tailored to region and country specific customs and languages. ADB recently signed a letter of intent with the UN-ODC permitting closer cooperation on this initiative.

Approximate \$1,000,000

International Maritime Organization (IMO) ISPS Training

Batch II technical assistance projects focused on International Ships and Port facilities Security (ISPS) code training, while Batch III will focus on the development of an ISPS CBT training program in collaboration with IMO to focus on the working level and roll out in several high risk locations. **Approximate Cost \$500,000**

World Customs Organization (WCO)/Asian Pacific Group on Money Laundering (APG): Development of Regional Trade databases/Information Exchange Centers

Batch III will contain proposals to promote regional trade data collection and information exchange, as well as the development of methodologies and systems to detect contraband, bulk cash smuggling and trade based money laundering. Regional Working Groups will be established or enhanced in collaboration with the WCO to foster international collaboration to address border related crime including trade based money laundering. It is envisaged that the BIMP EAGA port and border working group established in Batch II will serve as a model for other regions and sub-regions. **Approximate cost \$300,000**

BIMP EAGA Region: Enhancing Telecommunications Compatibility

Maritime security is critically important to the BIMP EAGA sub-region. Improving security depends on accurate and timely voice and data transfers between border and maritime entities within the sub-region.

ADB is considering a telecommunications capability/compatibility survey of the BIMP-EAGA region to ensure appropriate data and voice connectivity of border and port security entities in the sub region. It is expected that, as a result of such a survey, an enhanced communication system will integrate into the Customs, Immigration, Quarantine, and Security (CIQS) Harmonization project, BIMP-EAGA maritime (port and border) security working group in Batch II and on going ISPS programs in the sub-region. **Approximate cost \$ 400,000**

Asian Pacific Group on Money Laundering (APG)

Collaboration is underway between ADB and APG to develop several different initiatives including best practices for AML regimes with respect to the cell phone remittance industry.

Additional AML CBT programs not covered under the Batch 1 Indonesia and Philippines TA grants are also being explored for development in collaboration with, FBI, US Treasury, Department of Homeland Security, ADB, UN-ODC, APG and other subject matter experts. **Cost included above**

B. Anti-Money-Laundering and Border Controls

3G mobile value transfer preparation

ADB recently under took a study of mobile phone value transfer practices and conventions and found the Philippine regulatory system well regulated. It should also be noted that the mobile phone has been shown to reduce poverty by creating opportunities. However the new generation phones 3G call into question the regulators and law enforcement agencies ability to address the potential problems in providing access to the internet through mobile phones. The 2.5G mobile phone remittance systems will spread to 70 million people in ADB's region very shortly, not to mention the millions more of potential mobile phone subscribers in India and China, which are

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gearing up for large 3G markets.. Japan National Police Agency is interested in taking the topic to the G8, FATF is interested, APEC it self has taken an interest in the legal issues.

The TA would seek to do several things: i) work with national major players to establish a regional forum on mobile commerce and value transfer services bringing together, regulators, technology developers, law enforcers and development experts to share views and work out strategies in adequately regulating this emerging regional phenomena and at the same time optimize its potential to address poverty concerns; ii) perform a regional assessment of e/m commerce, cyber crimes and money laundering legislation, to ensure that legal definitions, rules of evidence, the potential for a digital KYC on value transfer are evaluated and recommendations to address gaps or inadequacies are formulated iii) identify strategies to address regulatory concerns such as development of regulator computer audit capability of non-bank financial institutions and working with technology and telecom firms to develop hybrid subscriber identification cards (SIM) that are tamper proof, iv) assess the regional capability from a regulatory, law enforcement and infrastructure protection standpoint and improve capacities with assistance from the private sector, bi-lateral donors, NGO's and other technical assistance providers.

Approximate cost \$1,500,000

Money Service Businesses (MSB'S)

Two of the FRTFSI's priority countries Indonesia and the Philippines have come a long way in strengthening their AML regimes in the past year. MSB's, which are a popular means of transmitting money in both countries, may serve as a conduit of criminal and terror funds and pose a very large threat to the effectiveness of their anti-money laundering regimes. ADB will seek to undertake the necessary study to identify the size of, and issues related to, the problem; explore avenues of legitimate displacement to more transparent systems and methods of controlling the illegal behavior in a systematic manner by mapping the existing systems, identifying the deficiencies in those systems, provide training and developing a CBT program to address the entire process if none exist. **Approximate cost \$500,000**

Retail sales and other micro-data

Like the trade data anomalies that assist in detecting customs fraud, money laundering/terror financing and contraband at the border, similar programs are being used in the retail trade area. Data collected from commercial sources, tax authorities, law enforcement agencies and financial intelligence units can be used to identify retail locations that have significantly higher cash sales than others in the same business for no good business reason. For example, a jewelry store that makes a half million dollars in sales more than their competitor for no apparent business reason may be serving as a consolidation point for laundered criminal proceeds and terror funds such as revolutionary taxes and other contributions.

Regional data collection at the micro level needs significant support to be effective in this task. If this support is given it will improve business forecasting, revenue collection and money laundering/terror financing detection and targeting. The TA would look to evaluate the data collected by high priority countries and determine how the data collection effort can be improved and be used to detect money laundering and terror financing as well as serve as a useful set of economic statistics. **Approximate cost \$500,000**

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Automated Fingerprint Identification System (AFIS)

Automated Fingerprint Identification System (AFIS) is an exceptional tool to quickly input, classify and analyze fingerprints for public safety and law enforcement purposes. There are many applications for the system including disaster victim recovery, positive identification for government benefits, judicial processing and law enforcement processing.

The TA would provide funding to permit an assessment, needs analysis, systems configuration, and cost benefit analysis for its use by DMC's for public finance, safety and security. **Approximate cost \$500,000**

Trade Financing

Current trade monitoring and targeting systems for AML and contraband miss a key element of the trade process, the financing side. ADB will track and analyze trade flows within the region focusing on priority countries by studying letters of credit and document collection files which serve to validate the trade data collected at the regions' borders. The study would utilize statistical sampling methods to provide a more accurate view of trade patterns and provide a comparison to measure against existing trade data. These new data will be used to develop/enhance systems to facilitate trade within the region and improve enforcement as it relates to trade based money laundering and the countering of the financing of terrorism, not to mention the trafficking in controlled substances. The project will enhance the APG/FATF/WCO efforts in the area.

Approximate cost \$300,000

Financial Intelligence Units (FIU)/Trade Transparency Unit (TTU) in a Box

In order to provide a limited analytical capability for start up FIU's, the trade transparency unit software structure is being redesigned to include an AML capability. The basic software is being written by United States Department of Homeland Security (DHS) but will need to be tailored and training provided in each country where the program will be installed. The program will lead to teaming up of border control agencies and FIUs for better AML/contraband targeting.

This program will require funding for software development and modification, a small number of computers, as well as knowledge ware. The proposal will include development and installation of trade analysis software, in collaboration with Department of Homeland Security (DHS), WCO and other donors. Priority countries will receive the targeting systems first. The systems will also be made available to other donors such as Austrac to support their on going initiatives in the Pacific Islands. **Approximate cost \$500,000**

Development of Sustainable Training Programs

Forensic Accounting and Computer Data Recovery and Analysis courses will be developed and initiated first in local educational institutions. These programs would be in compliance with international standards or best practices and provide certification of training and testing. They will be infused into local universities in priority countries and migrated through out the region. U. S. Treasury and DHS are participating in this effort. A forensic accounting program scheduled for development at the University of the Philippines in the third quarter of 06 under an approved project in Batch II will serve as a model. **Approximate cost \$400,000**

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Process Mapping

'Know before you go' approach with process mapping of existing systems, in the case of AML/CT to analyze the various aspects and their interrelatedness from detection through conviction. The concept is being tested as part of Batch 1 Strengthening the PHI AML Regime (Phase II). The analysis also permits a sequenced approach to capacity development to ensure better performance across the system. In addition, it will permit various donors to provide assistance on different needs but collectively add to the overall effectiveness of the program. **Approximate cost \$500,000**

Teaming and Mentoring

Capacity building through teaming and mentoring will be explored. For example in AML, a newly formed FIU could be teamed with an established effective FIU in the region. The approach permits closer operational and professional ties as well as educational opportunities. In the field of port security, model ports could serve as mentors to sister ports that have not met the International Ship and Port Facility Security Code (ISPS code) requirements in the region. The concept is part of the BIMP-EAGA Maritime (Port and Trade) Security Working Group (Batch II). **Approximate cost \$400,000**

Regional Integration Customs, Immigration, Quarantine and Security (CIQS) effort

ADB is embarked on a regional integration initiative to bring the benefits of trade and harmony to the various sub-regions. With the benefits of trade facilitation come the responsibility of improved border controls to address money laundering, smuggling of contraband and hazardous materials, crime, disease, trafficking in persons, terrorist transit and revenue generation. ADB has significant programs in place in the Mekong and Afghan rim that would benefit from regional CIQS integration programs with an emphasis on raising border enforcement capacity. **Approximate cost \$1,500,000 (three sub regions at 500,000 per region)**

Revolutionary Taxes

Critical to any criminal organization is funding. In ADB's region, extortion, kidnapping for ransom and traditional crimes serve as funding mechanisms of organized criminals. Groups advocating parallel governments through violent action, terrorists, use the same financing mechanisms but refer to the extortion practices as revolutionary taxes. This area needs to be researched, strategies developed and action plans implemented involving the public and private sector to address the problem. Keeping in mind that the success of these criminal/ terrorist practices rely not only on fear but the inability of government to meet the expectations of the people relative to corruption, delivery of service and justice. Designing a template for dealing with these issues will be explored. **Approximate cost \$500,000**

C. Transportation

Situational Training and Testing

Traditionally training has focused on imparting rules and international best practices. ADB will seek, in cooperation with international standard setters, to develop situational training on a sub national, national and sub regional and regional basis. The objective would be to train, then evaluate on various levels, responses to a particular incident to determine in a practical way impediments to successful implementation of response plans.

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For example in an aviation incident, can the proper people be contacted, is there sufficient communications capability, how will operations people interact with regional counterparts. Following training and testing recommendations will be made for improving performance locally, nationally and internationally. Where appropriate, CBT or multimedia programs will be developed to provide situational instruction for on site referral. These programs would be replicated throughout the region. **Approximate cost \$500,000**

Other Ideas under Consideration

Critical Infrastructure Security

The following infrastructure security concepts are being explored:

Information Technology -

Financial systems security -

Communications technologies – telecommunication security physical and computing