

## OPERATIONS MANUAL POLICIES AND PROCEDURES

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These policies and procedures were prepared for use by ADB staff and are not necessarily a complete treatment of the subject. This *Operations Manual* was prepared by the Office on Anticorruption and Integrity (OAI) and the Office of the General Counsel (OGC) and issued by the Strategy, Policy, and Partnerships Department with the approval of the President and is subject to compliance review. Questions may be directed to OAI and OGC.

### ENHANCING THE ASIAN DEVELOPMENT BANK'S ROLE IN COMBATING MONEY LAUNDERING AND THE FINANCING OF TERRORISM

#### A. Money Laundering and Financing of Terrorism

1. Money laundering is the processing of proceeds of a crime to disguise their illegal origin. Financing of terrorism denotes the act of providing or collecting funds with the intention or knowledge that they are to be used to carry out terrorism. Money laundering and the financing of terrorism (ML/FT) are global problems affecting both developed and developing countries (endnote i).

#### B. Key Principles and Elements

2. ADB's policy on combating money laundering and the financing of terrorism is guided by the following principles (endnote i):

- (i) ADB locates and implements its anti-money laundering and combating the financing of terrorism (AML/CFT) activities within the broader context of its goals, policies, and strategies for assisting its developing member countries (DMCs). These include reducing poverty, strengthening financial systems, and promoting good governance and anticorruption activities. The aim is to ensure that ADB's AML/CFT activities do not compete with or override existing operational priorities or divert scarce financial and human resources.
- (ii) ADB does not attempt to duplicate the ongoing efforts and programs of other organizations, such as the Financial Action Task Force on Money Laundering (FATF), the United Nations, the Asia/Pacific Group on Money Laundering, the International Monetary Fund, and the World Bank. ADB seeks to identify additional measures to complement the efforts of these other organizations, either through its lending operations or technical assistance.
- (iii) ADB's role is tailored to take account of the special problems and circumstances faced by DMCs—notably the lack of or weak AML/CFT laws, weak institutional capacity, and lack of specialized and sustainable training for government officials—so that they can effectively implement and enforce AML/CFT laws.

3. ADB's AML/CFT role has four elements (endnote i):

- (i) **Assisting developing member countries in establishing and implementing effective legal and institutional systems to combat money laundering and the financing of terrorism.** ADB's priority is to encourage the inclusion of AML/CFT issues in the policy dialogue with DMCs, where appropriate,

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- particularly when DMCs request ADB's assistance in this area.<sup>1</sup>
- (ii) **Increasing collaboration with other international organizations and aid agencies.** It is essential for ADB to strengthen its collaboration with international organizations and aid agencies working in the region to (a) ensure greater consistency in the approach to each DMC by all organizations; (b) ensure better coordination of assistance to DMCs to avoid duplication or conflict with other organizations; and (c) enable ADB staff to remain up to date with the latest developments and strategies of these organizations and to share or exchange information on AML/CFT issues with them.
  - (iii) **Strengthening internal controls to safeguard ADB's funds.** Because ADB is not a deposit-taking institution, its treasury operations are less directly exposed to ML/FT activity than those of commercial financial institutions—although some risks exist. Thus, ADB should continue to strive toward international best practice in its treasury operations.<sup>2</sup> At the same time, ADB should continue to (a) monitor and strengthen procurement and implementation aspects of ADB projects to ensure that its funds are not misused for the purposes of ML/FT through fraudulent procurement, contracting, and accounting;<sup>3</sup> (b) carry out adequate due diligence to ensure that integrity-related risks are addressed during project processing;<sup>4</sup> (c) strengthen borrowers' financial accounting and auditing arrangements to prevent the misuse of ADB funds; and (d) strengthen the system for screening sources of commercial cofinancing.
  - (iv) **Upgrading ADB's staff capacity.** ML/FT issues are specialized and distinct. An enhanced ADB role in AML/CFT will require upgrading and strengthening ADB staff's capacity and expertise to handle such issues and respond swiftly and effectively to DMCs' requests for assistance. Thus, it is essential that staff handling finance sector work, AML/CFT matters, and related responsibilities receive adequate training to enable them to address the issues effectively.

4. The Office of Anticorruption and Integrity (OAI) is tasked to (i) advance awareness of ADB's anticorruption and AML/CFT policies in collaboration with other departments; (ii) act as the focal point for and provide independent advice to Management and concerned departments on significant integrity or ML/FT concerns, including investigations as required to facilitate ADB's

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<sup>1</sup> The FATF sets the AML/CFT international standard (also known as the FATF Recommendations: *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation*) and promotes its implementation across countries.

<sup>2</sup> ADB treasury operations and related ML/FT risks, where applicable, continue to evolve since the adoption of the AML/CFT policy in 2003. OAI should therefore be consulted in this respect. This is pursuant to Management's approval on 4 February 2016 of the extension of the OAI advisory function to "provide oversight and guidance to concerned departments on integrity and ML/FT risks, including AML/CFT internal controls, and on [integrity due diligence], which encompasses ML/FT checks."

<sup>3</sup> In general, the following departments should incorporate international best practices to safeguard ADB funds against misuse, within their mandate and responsibilities and in close coordination with other concerned departments and offices: Controller's Department; the Procurement, Portfolio, and Financial Management Department; the Private Sector Operations Department; and the Treasury Department. Like ADB treasury operations, ADB projects and related ML/FT risks (where applicable) continue to evolve since the adoption of the AML/CFT policy in 2003. OAI should therefore be consulted in this respect, including on integrity due diligence.

<sup>4</sup> ADB. 2023. *Staff Instruction on Integrity Due Diligence for Sovereign Operations and Cofinancing*. Manila, as amended from time to time. Integrity due diligence is generally mandatory for nonsovereign operations. It should also be carried out for applicable sovereign and cofinancing operations. OAI should be consulted on the scope of due diligence, as appropriate.

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ability to assess significant integrity or ML/FT concerns; and (iii) provide oversight and guidance to concerned departments on integrity and ML/FT risks, including AML/CFT internal controls, and integrity due diligence, which encompasses ML/FT checks.<sup>5</sup>

5. OAI is responsible for strengthening ADB internal controls and related staff capacity, which are two of the four elements of ADB's AML/CFT role (para. 3). The Office of the General Counsel is responsible for the other two elements, which are to assist DMCs in strengthening their AML/CFT regimes (in collaboration with regional departments and as part of its Law and Policy Reform program) and keep abreast of AML/CFT developments (para. 3).

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### Basis

- i ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila (R45-03).

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<sup>5</sup> Implementation arrangements for the third element of the policy were described in the fourth ADB review of the AML/CFT policy implementation in 2022 (ADB. 2022. *Fourth Review of Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila [IN438-22]), which reflects Management's approval to extend the mandate of OAI's integrity and ML/FT risks advisory function (with the OAI Prevention and Compliance Division). ADB (Office of Anticorruption and Integrity). 2016. *Proposal to Extend the Mandate of OAI's Integrity and Money Laundering/Financing of Terrorism Risks Advisory Function*. Memorandum. 4 February (internal); and ADB (Budget, Personnel, and Management Systems Department, Office of the General Counsel, and Office of Anticorruption and Integrity). 2016. *Restructuring of OAI and Establishment of the Respectful Workplace Unit*. Memorandum. 27 June (internal).