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AFRICAN DEVELOPMENT BANK GROUP

**STRATEGIC FRAMEWORK AND ACTION PLAN ON THE PREVENTION OF ILLICIT
FINANCIAL FLOWS IN AFRICA
(2016 – 2020)**

GOVERNANCE, ECONOMIC AND FINANCIAL MANAGEMENT DEPARTMENT

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ACRONYMS

ADB	Asian Development Bank
AfDB	African Development Bank
AML	Anti-Money Laundering
AMV	African Mining Vision
AQIM	Al Qaeda in the Islamic Maghreb
ATAF	African Tax Administration Forum
AUSTRAC	Australian Transaction Reports and Analysis Centre
AU	African Union
CSO	Civil Society Organization
CDD	Customer Due Diligence
CDS	Capacity Development Strategy
CFT	Combating the Financing of Terrorism
COMSEC	Commonwealth Secretariat
CSP	Country Strategy Paper
CTRs	Cash (Threshold) Transaction Reports
EFCC	Economic & Financial Crimes Commission (Nigeria)
ESAAMLG	Eastern and Southern Africa Anti-Money Laundering Group
ESW	Economic and Sector Work
EU	European Union
Eurodad	European Network on Debt and Development
FATF	Financial Action Task Force on Money Laundering
FinCEN	Financial Crimes Enforcement Network
FSRBs	FATF-Style Regional Bodies
FIU	Financial Intelligence Unit

FT	Financing of Terrorism
GAP II	Governance Strategic Framework and Action Plan II
GFI	Global Financial Integrity
GIABA	Intergovernmental Action Group against Money Laundering in West Africa
GTF	Governance Trust Fund
IACD	Integrity and Anti-Corruption Department
IACF	Integrity and Anti-Corruption Fund
IFC	International Finance Corporation
IBA	International Bar Association
ICAR	International Centre on Asset Recovery
IDD	Integrity Due Diligence
IDS	Institute of Development Studies
IFFs	Illicit Financial Flows
IMF	International Monetary Fund
IT	Information Technology
KPMG	Klynveld Peat Marwick Goerdeler, a global forensic audit firm
KRAs	Key Result Areas
KYC	Know Your Customer
MDBs	Multilateral Development Banks
ML	Money Laundering
MNCs	Multi-national Corporations
MONEYVAL	Council of Europe Select Committee of Experts on the Evaluation of Anti-Money Laundering Measures
NDLEA	National Drug Law Enforcement Agency (Nigeria)
NGO	Non-Governmental Organizations

NPA	National Prosecuting Authority (South Africa)
NPOs	Non Profit Organizations
NRA	National Risk Assessment
OECD	Organization for Economic Co-operation and Development
OSCE	Organization for Security and Co-operation in Europe
OSGE	Governance, Economic and Financial Management Department (AfDB)
PALU	Pan African Lawyers Union
PBOs	Program-Based Operations
PEPs	Politically Exposed Persons
RISPs	Regional Integration Strategy Papers
RMCs	Regional Member Countries
RMF	Results Measurement Framework
ROSC	Reports on the Observance of Standards and Codes (IMF)
STRs	Suspicious Transaction Reports
TBML	Trade Based Money Laundering
TJN	Tax Justice Network
TJN-A	Tax Justice Network – Africa
TRACFIN	Traitement du renseignement et action contre les circuits financiers clandestins (France)
TYS	Ten Year Strategy
UNCTED	United Nations Counter Terrorism Executive Directorate
UNECA Panel	United Nations Economic Commission for Africa High Level Panel on Illicit Financial Flows in Africa
UNODC	United Nations Office on Drugs and Crime
UNSCR	United Nations Security Council Resolution

Executive Summary

1. **Introduction:** Illicit financial flows (IFFs) are illegal movements of money or capital from one country to another often involving Money Laundering, tax evasion, or bribery. It is a broader term that encompasses Money Laundering, Terrorism Financing illicit trade (such as contrabands, illegal arms and human trafficking), and other forms of illicit financial flows. IFFs are widely acknowledged to be among the most serious contemporary global threats. They occur in national, regional and global terrains that are constantly changing, exploiting opportunities that arise or, in some cases, opportunities which they create. Combating illicit financial flows depends on the quality of national regulations, their implementation and whether they comply with international best practices. Successful strategies to address these related threats need to be well informed, dynamic and adaptive.

2. A joint study conducted by the AfDB and the Global Financial Integrity (GFI) found that between 2000 and 2009, some US\$30.4 billion per annum flowed out of Africa, mostly in the form of IFFs. Over the longer period of 30 years calculated from 1980, the resource drain was between US\$1.2 - 1.3 trillion. The UNECA High Level Panel on Illicit Financial Flows¹ indicated that currently, Africa is estimated to be losing more than \$50 billion annually in IFFs. Some reports estimate that for every dollar of development assistance that developing countries received over the 10 year period (2003-2012) 10 USD left in the form of illicit financial flows (GFI 2014).

3. The statistics notwithstanding, there is clear indication that IFFs can have a substantive toll on development. IFFs divert resources away from priority sectors such as health, education and infrastructure to efforts to fight illegal activities. A UNDOC report points out that in certain cases, the value of resource flows of criminal and contraband goods is worth more than the security budgets of some countries. IFFs in the form of tax evasion, tax avoidance and harmful tax holidays not only erode the tax base for domestic resource mobilization but also place a disproportionate burden on smaller domestic firms, with consequences for employment generation. In the extractive sector for example, the IFFs have impacted on the ability of African countries to mobilize resources generated from sectors such as minerals and oil to finance their development. While IFFs occur in all countries – and are damaging everywhere – IFFs have particularly significant economic and social consequences for African countries. Across the continent, IFFs have been proven to be a key driver of state fragility and human insecurity, resourcing brutal and protracted conflicts. The situation is worse in fragile and post conflict countries which run a risk of recurrence of conflict.

4 This IFFs Strategic Framework and Action Plan is being prepared to operationalize the commitments made by management in the Bank Group's Anti-Illicit Financial Flows Policy, which was approved by the Boards of Directors on the xx of xxxx, 2016, the Boards of Directors². The Anti-IFFs Policy provides the policy framework for the Bank's IFFs work, directs the Bank's work on strengthening its internal anti-IFFs practices, and sets out the capacity requirements to support its RMCs to combat IFFs.

¹ The 4th Joint AU/ECA Conference of African Ministers of Finance, Planning and Economic Development which held in 2011 mandated the ECA to establish the High Level Panel on IFFs from Africa

² The Policy is currently being processed for CODE and Board consideration in October, 2016.

It also provides the basis for the Bank to enhance its collaboration with FATF-Styled Regional Bodies (FSRBs) to combat Money Laundering and Terrorism Financing, in particular, and illicit financial flows, in general.

5. **Bank's efforts to Combat IFFs:** The Bank has been at the forefront of efforts to combat AML/CFT. Within the framework of the 2007 AML/CFT strategy the Bank committed to promoting good governance, strengthening financial institutions and preventing corruption. Looking within, the Bank took steps to tighten its fiduciary safeguards and internal controls to ensure that its lending is used for its intended purposes. Regarding the Bank's support to RMCs, activities undertaken include assessments of key risks relating to Money Laundering, Terrorism Financing, and illicit financial flows, and defining risk mitigation measures; building the capacity of personnel charged with upholding AML/CFT laws (e.g. investigators, prosecutors, judges); building the capacity of FIUs; support to national and international institutions that work to recover stolen assets; and providing the infrastructure necessary to track and report cash movements across borders. The Bank has also supported internal and external training programs to further enhance capacities in AML/CFT.

6. **Why an IFF Strategic Framework and Action Plan now?** The 2007 AML/CFT Strategy did not cover all forms of IFFs and lacked both an action plan for its implementation and a results measurement framework to articulate key priorities and define the necessary actions to deliver on objectives. This strategic framework and action plan, therefore: (i) has expanded the scope of the Banks AML/CFT strategy to include all forms of IFFs and recovery of stolen assets; (ii) incorporated an action plan and a results measurement framework and (iii) recommended an organizational framework for the coordination and implementation of the Bank's IFFs work. With these changes, the Strategic Framework and Action Plan which has benefited from an extensive consultation with a wide section of stakeholders within and outside the Bank and draws best practices from other MDBs and bilateral donors aims to address the shortcomings of the 2007 AML/CFT Strategy and set a clear path for future Bank interventions in IFF work. Moreover, the 2007 Strategy was prepared prior to the new Bank Group's Strategy for 2013-2022 (TYS), which was approved by the Boards in April 2013. The revision provides an opportunity to align the Bank Group IFFs work in RMCs with the strategic thrust of the TYS, with the *Governance and Accountability* core priority area of the TYS providing the strategic platform for the Bank's IFFs work.

7. **Strategic Alignment:** The orientation of the Strategic Framework and Action Plan is predicated on Bank's overall mission to promote inclusive growth, alleviate poverty and foster governance and accountability as articulated in various strategic documents including Ten Year Strategy (TYS), the Governance Strategic Framework and Action Plan (GAP II), the Bank Group Anti-Illicit Financial Flows Policy, and the Strategy on Addressing Fragility and Building Resilience in Africa. It also draws inspiration from the proposed Integrity Due Diligence Policy and Guidelines for Non-Sovereign Operations and the Financial Sector Development Policy. In this regard, conformity with the governance and accountability agenda, as well as the priority areas of emphasis of the High-5, within the TYS framework will be key for all Bank Group's governance interventions, including its activities in combating IFFs.

8. **Vision and Core Objectives:** The vision of the Bank Group with regard to the prevention of IFFs is to have a continent that is free of IFFs and other major financial crimes by 2030. The core objective of the Bank's Combating of IFFs work is to significantly contribute to the continent's response to the threat

of IFFs. The Strategy has two main pillars: Strengthening the Capacity of RMCs and RECs to fight IFFs and Strengthening Internal IFFs safeguards and Knowledge Management. Key Results Areas include enhanced capacity of RMCs and on state actors to combat ML and FT in particular, and IFFs in general; strengthened international co-operation against IFFs and enhanced capacity for staff to mainstream and implement IFFs.

9. **Implementation Arrangements:** The strategy proposes better situating IFF work within the Bank by creating a IFFs Operations and Advisory Team (or Group) (Economic and Financial Integrity Team (or Group), as part of the Governance and Public Financial Management Coordination Office, under the Chief Economist and Vice President, for Economic Governance and Knowledge Management. The functions of the proposed Economic and Financial Integrity Team (EFIT) would be mostly focused on external IFFs activities and coordination. It would be responsible for handling all IFFs operations, dialogue with external stakeholders/partners and the coordination of all IFFs activities within the Bank. In addition, it is being proposed that all IFFs Compliance activities be consolidated under a IFFs Compliance Team within the IACD. The IFFs Compliance Team would be responsible for issues of ex-ante integrity due diligence, and anti-IFFs. In carrying out their mandates, the Economic and Financial Integrity Team and the IFFs Compliance Team will interact with other departments of the Bank tasked with related work such as anti-corruption, audit and legal and judicial reforms. With regards to financing of the Bank's Anti-IFFS projects, programs and technical assistance, it is proposed that a multi-donor Topical Trust Fund for the Bank's Anti-IFFs activities, similar to the IMF's AML/CFT Topical Trust Fund, be established.

10. **Risks and Mitigation:** The main risks that could potentially affect the implementation of the strategic framework and action plan include insufficient skills and expertise required to deliver effectively on commitments, inadequate resources and poor commitment in some RMCs to undertake the required policy and regulatory reforms. This will be mitigated internally through training and externally by providing support to and maintaining continuous dialogue with RMCs. The proposed topical fund, if created, would ameliorate the resource challenges.

11. **Conclusion and Recommendations:** This document revises the AML/CFT Strategy adopted by the Bank in 2007 and presents an action plan for implementing the Banks IFFs work. It recognizes the threat that IFFs continue to present to development in RMCs, and proposes structured and measurable responses, and structured interventions to develop effective responses to IFFs in Africa within the context of the one Bank approach. It is recommended to the Boards of Directors for consideration and approval to enable Management implement the measures proposed therein.

I. INTRODUCTION

1.1 In October 2007, the African Development Bank Group (Bank Group) Board of Directors approved the Bank's Strategy for the Prevention of Money Laundering and Terrorism Financing in Africa (2007 AML/CFT Strategy). Since then, various developments have prompted greater interest in, and to some extent enriched the level of knowledge regarding Money Laundering and Terrorism Financing which has necessitated the revision of the Strategy as well as the preparation of an accompanying Action Plan, to bolster the Bank's internal activities and practices and enhance its support to its RMCs and FATF-Styled Regional Bodies (FSRBs) in Africa. These developments prompted the Governance Strategic Framework and Action Plan (GAP II) commitment to a revision of the 2007 AML/CFT Strategy to include all forms of illicit financial flows and the recovery of stolen assets so as to provide a strategic basis for the Bank's work in this area.

1.2 Africa has made considerable advances in democracy, economic growth, and development since the final decade of the 20th Century. In spite of these advances, the escalation of Money Laundering (ML), Financing Terrorism (FT) and other forms of Illicit Financial Flows (IFFs) and their adverse effects on peace, security and development on the continent continue to be matters of concern. The techniques and methods used by the perpetrators of these criminal activities have become sophisticated. It is against this setting that the Bank Group Strategic Framework and Action Plan for the Prevention of Illicit Financial Flows in Africa (the Bank Group IFFs Strategic Framework and Action Plan) has been prepared.

1.3 Money Laundering describes a process through which the origin of funds generated by illegal means is concealed. The process may be accomplished by using one or more financial institutions. It could also be done outside such institutions. When it uses the financial system, Money Laundering is conventionally understood to involve three stages: (1) the introduction of the proceeds of crime into the financial system (placement); (2) transactions to convert or transfer the funds to other locations or financial institutions (layering); and, (3) reintegrating the funds into the legitimate economy as "clean" money and investing it in various assets or business ventures (integration). Proceeds of illegal activities may be laundered outside financial institutions, in which case they are directly used to acquire assets that subsequently generate secondary proceeds.

1.4 Terrorist activities almost always require support in the form of funding or services. Mobilizing and/or extending such support amounts to financing terrorism (FT). Terrorism may be funded from proceeds of crime or from other sources. The period subsequent to the adoption of the 2007 AML/CFT Strategy has witnessed the escalation of terrorist atrocities committed by networks that claim to be guided by religious ideologies. Criminal activities such as commodity smuggling, maritime piracy and kidnapping for ransom have been used to raise funding for terrorism. These crimes have consequently become integral components of the landscape of both ML and FT, and contributed significantly to Illicit Financial Flows in Africa.

1.5 Illicit Financial Flows is a broader term that covers both ML and FT as well as other illegal movement of funds. The AU-UNECA High Level Panel on IFFs defines IFFs as money illegally earned, transferred or used. It has to do with the flow of money (mostly unrecorded) that are in violation of laws in their origin, or during their movement or use, and are therefore considered illicit. They derived mainly from (a) proceeds of theft, bribery and other forms of corruption by Government officials; (b) proceeds of

criminal activities, including drug trading, racketeering, counterfeiting, contraband and Terrorism Financing; and (c) proceeds of tax evasion and laundered commercial transactions.

1.6 IFFs may be entirely domestic or trans-national. Cross border outflows tend to be more complex to detect, track and recover, hence their dominance in most policy debates. As recent studies have shown (GFI 2013), cross-border illicit financial flows can go in either direction. Some countries in Africa are affected by both illicit inflows and outflows. There is substantial evidence that the dominant IFFs emanate from developing countries towards developed economies, directly or through secrecy jurisdictions. By far the greatest source of IFFs in Africa is tax evasion and tax avoidance especially through trade and service mispricing and the use of secrecy jurisdictions to facilitate and conceal them. According to estimates by Global Financial Integrity, corrupt activities such as bribery and embezzlement constitute only about 3% of illicit outflows, criminal activities such as drug trafficking and smuggling make up 30% to 35%, and commercial transactions (mainly in the form of tax evasion and trade mispricing) by multinational companies make up about 60% to 65%. Tax evasion and tax avoidance are common place among corporates and wealthy elites in Africa, but the most harmful of these is tax evasion by Multinational Corporations given the scale of tax evasion and avoidance and the consequent tax loss involved in view of the size of resources under their control.

1.7 Taxation is increasingly being recognized as the most reliable and sustainable source of domestic revenue mobilization (DRM). The Outcome Document of the Third Financing for Development Conference (FfD3), which clearly states the importance of DRM to finance development, underlines the centrality of taxation to development. This is particularly important in the context of mobilizing the needed resources for attaining the new Sustainable Development Goals (SDGs) for 2030. In essence, IFFs undermines revenues and reduce the benefits from economic activities, particularly from the extractive sector, with adverse consequences on the capacity of African countries to mobilize resources generated by such sectors to fund their development efforts.³ This also has adverse welfare and distributional effects on the poor with implications for inclusive growth. The curtailment of IFFs could therefore, be a powerful tool for enhancing domestic resource mobilization and a way of furthering economic development in the continent and promoting inclusive growth. The Bank has consequently, endorsed the Extractive Industries Transparency Initiative, actively supported compliance with its principles, and availed the African Legal Support Facility to assist RMCs with complex investment negotiations.

1.8 In addition to its impact on domestic resource mobilization, IFFs have a substantial impact on the effectiveness of aid and development programs and on state fragility. According to a UNODC report, the value of resource flows of criminal and contraband goods is worth more than the security budgets of some countries. This places a strain on state institutions and makes countries highly vulnerable to organized crime. The situation is worse in fragile states with weak governance systems and those countries emerging from conflict. Such states run the greatest risk of the onset and re-occurrence of conflict, and of extreme levels of criminal violence. Across the continent, IFFs have been proven to resource brutal and protracted conflicts and to contribute to the financing of terrorist groups. Illegal arms trade, has chronically

³ EAC (2013). The State of Governance: The Dimension of Illicit Financial Flows as a Governance Challenge

exacerbated human insecurity and increased the level of violence in the community, with the continent posting some of the highest levels of homicide in the world.

1.9 IFFs out of Africa have become a matter of major concern because of the scale and negative impact of such flows on Africa's development and governance agenda. In its report, the UNECA High Level Panel on Illicit Financial Flows⁴ noted that Africa has lost an estimated \$1 trillion or more over the past 50 years in illicit financial flows (IFFs). This sum is roughly equivalent to all of the official development assistance received by Africa during the same timeframe. The report also indicated that currently, Africa is estimated to be losing more than \$50 billion annually in IFFs. Similarly, a joint study conducted by the Bank Group and the Global Financial Integrity (GFI) came up with estimates of the scale of IFFs from African countries during the period 1980-2009. It found that between 2000 and 2009, some US\$30.4 billion per annum flowed out of Africa, mostly in the form of IFFs. Over the longer period of 30 years calculated from 1980, the resource drain was between US\$1.2 - 1.3 trillion.

1.10 Given the enormous challenges facing African countries in combating the criminal activities associated with IFFs, as well as the increasing sophistication of the techniques and methods being used for these criminal activities, African countries need more support from their development partners, including the Bank. The Bank also needs to upgrade its own capacity to pre-empt and prevent such activities. It is therefore necessary to enhance and implement internal control procedures and adequately train staff to identify ML, FT and other IFF risks and to be vigilant. The Bank's position as a multi-lateral partner enables it to perceive trans-national developments that may either escalate ML/FT/IFF risks, or reduce them.

1.11 **The Boards of Directors, on xx of xxxx, 2016,**⁵ approved the Bank Group's Anti-Illicit Financial Flows Policy, which provides the policy framework for the Bank's IFFs work, directs the Bank's work on strengthening its internal anti-IFFs practices, and sets out the capacity requirements to support its RMCs to combat IFFs. The Anti-IFFs Policy also provides the basis for the Bank to enhance its collaboration with FATF-Styled Regional Bodies (FSRBs) to combat Money Laundering and Terrorism Financing, in particular, and illicit financial flows, in general. This IFFs Strategic Framework and Action Plan is being prepared to operationalize the commitments made by management in the Anti-IFFs Policy.

1.12 The Anti-IFFs Policy outlines the main elements of the Bank Group approach to assist RMCs to participate in addressing issues that affect ML, FT and other forms of IFFs from Africa as well as recovery of stolen assets. It commits the Bank to work with RMCs, and its partners, in identifying the obstacles to their effective participation, and to assist in surmounting them. Specifically, the Strategic Framework: (i) has expanded the scope of the Banks IFFs work to include all forms of IFFs and recovery of stolen assets; (ii) incorporated a result measurement framework and an action plan for its implementation with a timeframe for implementation; (iii) there is a costing for the activities to be implemented under the proposed strategic framework and action plan; and (iv) recommended an organizational framework for the coordination of the Bank's IFFs work. With these changes, the Strategic Framework and Action Plan aims

⁴ The 4th Joint AU/ECA Conference of African Ministers of Finance, Planning and Economic Development which held in 2011 mandated the ECA to establish the High Level Panel on IFFs from Africa

⁵ The Policy is currently being processed for CODE and Board consideration in October, 2016.

to address the shortcomings of the 2007 AML/CFT Strategy and set a clear path for future Bank interventions in this field.

1.13 The Strategic Framework and Action Plan has benefited from an extensive consultation with a wide section of stakeholders within and outside the Bank. It draws on the experience of other MDBs and bilateral donors, including the World Bank and IMF, Asian Development Bank, United Nations Office on Drugs and Crime (UNODC), the Organization for Economic Co-operation and Development (OECD), and the Organization for Security and Co-operation in Europe (OSCE).⁶ It takes account of the progress made in the intervening period by various African countries to implement AML/CFT requirements.

1.14 The document comprises seven sections. The Introduction is followed by a section which outlines the achievements of the Bank under the implementation of the 2007 Strategy, the key challenges observed in implementing the strategy and the rationale for the revision of the strategy. On the basis of this, the Bank Group Strategy is set out in the third section. The proposed structure for implementing the Bank Group IFFs work is presented in the fourth section, while the fifth section presents an assessment of the risks to the implementation of the strategy and proposes some mitigation measures. The consultation process in preparing the strategic framework and action plan is presented in the sixth section, while the conclusions and recommendations are presented in the seventh and final section. The Action Plan and Operational Implications for the Implementation of the Strategic Framework are presented in Appendix 2. This includes a proposed institutional framework and financing plan; a draft terms of reference for the proposed IFFs Operations and Advisory Team; an indicative five year work plan, including cost estimates; and IFFs pillars related implementation responsibilities; as well as an indication of capacity building requirements and priorities.

II. ACHIEVEMENTS UNDER THE 2007 STRATEGY AND KEY CHALLENGES

2.1 Bank's Achievement under the 2007 AML/CFT Strategy

2.1.1 In the course of preparing the Strategic Framework and Action Plan, we have established the activities that were undertaken in the four key strategic areas set out in paragraph 3.3 of the 2007 Strategy. Specifically, the Bank committed itself to: (i) Adopt measures to tighten its fiduciary safeguards, internal procedures and policies, and its audit function to ensure that its lending is used for its intended purposes and not subjected to financial abuse, corruption or Money Laundering; (ii) Facilitate the implementation of international AML/CFT standards by RMCs and participate in regional and national AML/CFT capacity building initiatives in collaboration with other international organizations and development agencies; (iii) Assist RMCs directly and through FSRBs, in collaboration with other international organizations, in support of their efforts to develop AML/CFT laws and strategies in compliance with international standards and build an institutional capacity to implement these laws and strategies, including a capable financial investigation unit; and (iv) Support and assist the establishment of effective and operational sub-regional FSRBs. Some of these activities are entirely internal and of a continuing nature.

2.1.2 Following the approval of the 2007 AML/CFT Strategy the Bank has taken several actions to implement the strategy. These include the designation of a focal point for AML/CFT activities in the

⁶ The areas of intervention of other development partners and their experience are discussed in annex 4 to this strategy.

Governance, Economic and Financial Reforms Department (OSGE) of the Bank. In addition, the Investigation and Anti-Corruption Department (IACD) is charged with the responsibility of ensuring that operations financed by the Bank Group comply with Bank policies and applicable conventions regarding AML/CFT and the legitimate use of Off-Shore Financial Centers and Tax Havens. Also, as a FATF Observer, the Bank endorses the FATF standards and incorporates AML/CFT issues in its operations as well as policy work with its regional member countries.

2.1.3 Regarding activities to ensure Bank funds are not misused, the Treasury Department (FTRY) undertakes “Know Your Customer” (KYC) functions. In this regard, FTRY manages and, in collaboration with the Legal Department (GECL), coordinates responses to request in respect of KYC/AML by counterparties and correspondent banks. It also undertakes documentation and justification of payments and beneficiaries, screens outgoing payments to ensure compliance with correspondent banks KYC/AML policies and investigates incoming payments to ensure compliance with the Bank operations. However, the current KYC framework and practice in the Bank is not robust and comprehensive enough and there is the need to review the current KYC procedures in the Bank, and introduce a KYC manual, strengthen the monitoring process of correspondence banks and introduce the use of modern tools for KYC due diligence.

2.1.4 On its part, the Bank’s Integrity and Anti-Corruption Department (IACD) has developed an Integrity Due Diligence Policy and guidelines on non-sovereign operations and has also prepared a training program on the prevention of fraud and corruption that is provided to Bank staff as part of the induction process. While the trainings undertaken so far have been useful, there is a need for more structured and regular refresher courses that take account of new developments and strategies. The Strategic Framework and Action Plan will establish the basis for both in-house training and outreach activities for the Bank’s operational units (public and private sectors).

2.1.5 Regarding the Bank’s support to RMCs, activities undertaken include assessments of key risks relating to Money Laundering, Terrorism Financing, and illicit financial flows, and defining risk mitigation measures; building the capacity of personnel charged with upholding AML/CFT laws (e.g. investigators, prosecutors, judges); building the capacity of FIUs; support to national and international institutions that work to recover stolen assets; and providing the infrastructure necessary to track and report cash movements across borders.

2.1.6 The Bank has committed itself to participate in the meetings of the Intergovernmental Action Group against Money Laundering in West Africa (GIABA) and the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG) and has provided direct financial assistance to these two FSRBs on a demand driven basis. In this regard the Bank: (i) assisted the ESAAMLG to complete its training on the methodology to be used in evaluating the compliance of some of its member countries; (ii) Assisted GIABA and ESAAMLG to conduct their respective technical assistance needs assessment of all their member countries; (iii) is currently assisting GIABA with Technical and Financial Assistance to Implement Capacity Building Programs on AML/CFT across West Africa. The bank has committed \$300,000 from the

Governance Trust Fund (GTF) for the purpose;⁷ and (iv) is currently assisting The Gambia with resources from the GTF to build capacity in the area of AML/CFT and to establish an FIU.

2.2 Key Challenges of Implementing IFFs Measures under the 2007 Strategy

Key Challenges at Country and Regional Levels

2.2.1 A key challenge confronting African economies in developing effective AML/CFT measures relates to co-ordination and alignment of responses to ML and FT at the domestic level. In certain instances, there is competition between the different agencies that are involved in anti-corruption, Anti-Money Laundering, drug law enforcement and other economic and financial crimes activities, while in other cases, their roles are not clearly defined and delineated. The low level of collaboration among public institutions, and between them and private sector institutions weakens AML/CFT regimes, and hinders the ability of countries to restrict IFFs.

2.2.2 A number of appraisals and technical assistance needs assessments undertaken by FSRB in Africa, including GIABA and ESAAMLG,⁸ revealed significant deficiencies in the AML/CFT frameworks of their member states. These include: (i) Weak ML Legislation; (ii) Lack of CFT Legislation in some cases; (iii) Lack of operational or well-equipped FIUs; (iv) Lack of capacity of relevant personnel, including law enforcement agent, financial supervisors, judges and prosecutors; and (v) Absence of well-defined policies and national strategies and action plans to fight Money Laundering, Terrorism Financing and other forms of illicit financial flows.

2.2.3 From the above, the following challenges to the implementation of AML/CFT measures have been identified: (i) Accessing and analyzing data; (ii) Investigating ML cases; (iii) Prosecution and adjudication skills; (iv) Tracking proceeds of corruption; (v) Tracking and documenting cross-border bulk cash movement; (vi) Conducting risk assessments of ML and FT; and (vii) Analyzing suspicious transaction reports, and determining trends from investigated cases.

2.2.4 With respect to international co-operation, knowledge gaps have been identified as a major challenge. For instance, there is demonstrable public concern about the perceived escalation of crime, corruption and illicit/unethical corporate practices, and there is a growing demand for tax justice in both developed and developing countries, by governments and civil society alike. However, an enduring issue is the lack of reliable and up to date information on the scale of organized crime and the identity of the networks involved. There are gaps in the availability of statistics on crime in many countries. The extent to which the general public, as well as specific interest groups outside the state, can access information relating to the incidence of ML is uneven.

⁷ The Technical Assistance to GIABA is mainly intended to build capacity to investigate and prosecute ML cases. In addition, it will assist the training of judges in AML/CFT issues to improve adjudication of cases, and enhance the skills of officials mandated to track and recover proceeds of crime and corruption.

⁸ In Africa, there are three regional anti-money laundering groups or FSRBs that have been granted observe status to the FATF. These are the Eastern and Southern Africa Anti-Money Laundering Group (ESAAMLG), the Intergovernmental Action Group against Money Laundering in West Africa (GIABA), and the Middle East and North Africa Financial Action Task Force Against Money Laundering and Terrorism Financing (MENAFATF). A fourth group, the Groupe d'Action contre le Blanchement d'Argent en Afrique Centrale (GABAC) is yet to be granted an observer status with FATF. These FSRBs are discussed in detail in appendix 3 of the 2007 AML/CFT Strategy.

2.2.5 Cross-border collaboration is also hampered by the fragmentation of laws and practices, even between countries within the same region. This pertains both to offences that are predicate to ML, as well as to certain forms of ML, such as Money Laundering facilitated by trade transactions. Progress in adopting common positions on transfer pricing has been slow in Africa. Fragmentation of approaches is particularly debilitating to efforts to restrict global IFFs. It impedes co-operation, and draws attention to the need for a concerted effort to harmonize policies and laws.

2.2.6 The challenge for the Bank is how best to contribute to addressing these substantive challenges, ensuring that the interventions it supports are followed up by impact evaluations. The approach that the Bank Group will adopt in addressing these challenges are enunciated under Pillar 1 of this strategic framework and action plan.

Key Challenges at the Bank Group Level

2.2.7 Over the years, ML and IFFs have become technical issues demanding sustained analytical interest and expertise. Because they are committed in ways that have become sophisticated over time, developing the cognitive capacity to appreciate and detect them demands resources to be dedicated to those ends. The Bank's own Capacity Development Strategy identifies the three dimensions of internal capacity as: "(i) human capacity, which is mainly addressed through training; (ii) organizational capacity, which involves organizational arrangements such as structure, process, networking, and systems; and (iii) institutional capacity which entails rules, regulatory framework, policies and laws." Internally for the Bank a more important challenge is the current gaps in organizational and institutional capacity for ML, FT and IFFs safeguards. Addressing this is particularly pertinent given the urgent need to progressively mainstream IFFs issues and practices into the Bank's operations.

2.2.8 A related challenge is the limited coordination between various sections of the Bank on IFFs situations. Detecting suspicious activities often requires linking information encountered separately by distinct units of a financial institution. The separate sections of the Bank might encounter relevant information, but not document and analyze it for the purpose of combating IFF, if none of these aspects are within their mandate. Less likely though it might be, information recorded within the Bank may not be shared with the departments most appropriate to IFFs. The absence of a source of reference to serve as a guide and to effectively coordinate the Banks AML/CFT and IFFs work has been problematic to implementation of the 2007 AML/CFT Strategy.

2.3 Rationale for the Revision of the 2007 Strategy

2.3.1 As noted above, the 2007 AML/CFT Strategy has been successfully implemented in a number of instances, contributing to the Bank's dual objectives of ensuring its funds are not misused and supporting RMCs in stopping Money Laundering and Terrorism Financing within their borders. Despite these successes, there is room for improvement in the implementation of Bank Group's IFFs activities. Key lessons learned during the implementation of the 2007 Strategy are: (i) the need for stronger ownership of RMCs in the design and implementation of AML/CFT projects/programs; (ii) the need for more awareness on the part of the general public of the risks and implications associated with Money Laundering and Terrorism Financing; and (iii) the need for better donor/development partner coordination on AML/CFT activities.

2.3.2 In addition to these lessons, which will help the Bank focus its IFFs activities, going forward, RMCs, RECs and the Bank are confronted with a number of challenges in the implementation of IFFs measures, which could not be adequately addressed in the context of the 2007 strategy. Another major challenge that was noted during the implementation of the 2007 Strategy was the fact that there was no results measurement framework to articulate key priorities and define the necessary actions to deliver on objectives. Without a means to track activities, monitor progress, and report on outcomes, it was, and remains, difficult to determine how much progress has been made and where there are gaps to be filled. The 2007 Strategy contain a list of activities which the Bank intended to implement but the strategy had no time frame for the implementation of these activities, no measurement framework, no institutional framework for implementation and there was no costing for the activities. Through the inclusion of a result measurement framework and an action plan with a proposed institutional framework for implementation as well as a timeframe for doing so, the Strategic Framework and Action Plan aims to address the above shortcomings and sets a clear path for future Bank interventions in this field.

2.3.3 Moreover, the 2007 AML/CFT Strategy was mainly concerned with ML and FT linked to or stemming from proceeds of criminal activities and corruption. There is therefore, a need to expand the scope of the Strategy to cover IFFs in general as well as recovery of stolen assets. In view of the growing concern with the detrimental impact of IFFs on developing economies, the Bank committed in GAP II to a revision of the 2007 AML/CFT Strategy to include all forms of IFFs and recovery of stolen assets. By this, the Strategic Framework and Action Plan expands the scope of the Banks intervention in this sphere to include all facets of IFFs including (i) Money Laundering of the proceeds from theft, bribery and other forms of corruption by Government officials; (ii) proceeds from criminal activities, including drug trafficking, racketeering, counterfeiting, dealing in contraband goods and financing of terrorism; and (iii) proceeds of tax evasion and laundered commercial transactions; as well as support to member countries authorities and institutions in their efforts to recover stolen assets. This will create synergy of the Bank's activities in this area with the activities of other partners as well as coherence in the Bank's governance interventions.

2.3.4 In addition, there has been a gradual convergence of interest in Africa and beyond to combat corruption and tax evasion, especially the continuing use of tax havens to facilitate and conceal tax evasion. The role of some multi-national corporations in illicit profit shifting has attracted the attention of many developing countries, development agencies and civil society around the world. Concerns center on the manipulation of intra-group transactions and the use of tax havens. The Strategic Framework and Action Plan takes these developments on board and also enable the Bank to strengthen its internal activities and practices, and its capacity to support its Regional Member Countries (RMCs) to combat tax evasion and to collaborate with FATF-Styled Regional Bodies (FSRBs) in Africa.

2.3.5 The Strategic Framework and Action Plan reinforces the Bank Group's aspiration to support peaceful, equitable growth and human development, in line with initiatives such as the Africa Mining Vision (AMV), adopted by the African Union Heads of State and Government in February 2009. The AMV aims for 'a judicious and prudent use of mineral revenue to build up the capital stock necessary to unleash economic transformation on the continent.' Moreover, as indicated above, the Bank has recently articulated its TYS and a new Governance Strategic Framework and Action Plan (GAP II), developed an Integrity Due Diligence Policy on Non-Sovereign Operations, and a new Anti-IFFs Policy which expands the scope of the Bank's IFFs work. In addition to enabling the Bank to align the scope of IFFs with that of ML, the

proposed Strategic Framework and Action Plan provides a platform for alignment with the TYS, GAP II and the Integrity and Due Diligence Policy on Non-Sovereign Operations. It also provides the strategic framework for the implementation and operationalization of the new Anti-IFFs policy. The 2007 Strategy was prepared prior to the new Bank Group's Strategy for 2013-2022 (TYS), which was approved by the Boards in April 2013. The TYS puts the Bank at the center of Africa's transformation and is built around five core operational priorities, including Governance and Accountability. Consequently, it has become imperative to align the Bank Group IFFs work in RMCs with the strategic thrust of the TYS, with the *Governance and Accountability* core priority area of the TYS providing the strategic platform for the IFFs Strategy.

2.3.6 Finally, the Strategic Framework and Action Plan needs to optimize the comparative advantage of the Bank in current and future IFFs discourse in Africa, without raising unrealistic stakeholder expectations. While the activities of criminal networks contribute significantly to IFFs, it is not within the Bank's mandate to directly intervene against organized crime. Even if it wishes to do so, its capacity to directly intervene against organized crime is limited. The Bank is better placed to influence policy formulation in the areas of IFFs. However, by supporting its RMCs to fight Money Laundering and combatting illicit financial flows, the Bank would be contributing to the fight against organized crime because targeting the Money Laundering aspect of their criminal activity and depriving them of their ill-gotten gains means hitting them where they are vulnerable. Without a usable profit, the criminal activity will not continue.

III. BANK GROUP'S STRATEGY FOR PREVENTION OF IFFs

3.1 Strategic Alignment: The orientation of the Strategy is informed by experiences of the last decade, review of the most critical contemporary governance challenges in Africa, the priorities of the Ten Year Strategy (TYS) and the Governance Strategic Framework and Action Plan (GAP II). It is based on an appreciation of the need to revise the scope of the 2007 Strategy in the light of contemporary demands. It also draws inspiration from the proposed Integrity Due Diligence Policy and Guidelines for Non-Sovereign Operations, the Anti-Illicit Financial Flows Policy, the Financial Sector Development Policy and Strategy and the Capacity Development Strategy (CDS). Its alignment is summarized below with reference to each of the above-mentioned documents.

3.1.1 *Ten Year Strategy:* The TYS (*At the Center of Africa's Transformation*) envisages a more prosperous Africa. It commits the Bank to support Africa's transformation to a prosperous continent with inclusive and green growth, underpinned by a viable, strong private sector (supported by appropriate skills and tools), and developed and sustainable infrastructure that feed markets and economies that are integrated. The *Governance and Accountability* core priority area of the TYS as well as the *priority areas of emphasis of the High-5, within the TYS framework* provide the strategic platform for the IFFs Strategy. They will be key for all Bank Group's interventions in combating IFFs. The Strategic Framework and Action plan will complement the inclusive growth agenda of the TYS by prioritizing measures to enhance revenue mobilization for investment in the key priority areas of the High-5, including agriculture, energy and industrialization, and in suppressing economic crime in African countries, which will ultimately lead to improvement in the quality of life of Africans. In its focus on IFFs, the proposed IFFS Strategic Framework promotes maximum retention of value in African economies, as a source of investment and development capital. It contributes to the Bank's approach of mainstreaming governance in all its operations, particularly

in respect of accountability in the use of revenues accruing from all forms of trade, effectiveness in the administration of taxation and in the management of foreign direct investment and inflows from remittances. The TYS emphasizes demand side accountability, which provides an entry point for structured engagement by the Bank with civil society to support a greater role in combating IFFs. In articulating the proposed IFFs Strategic Framework, alignment and consistency with the TYS was ensured. In particular, it complements the inclusive growth agenda of the TYS by prioritizing measures to suppress economic crime in African countries thereby enhancing internal revenue mobilization.

3.1.2 Governance Strategic Framework and Action Plan (GAP II): GAP II identifies the fight against corruption, which is a major driver of ML, FT and other forms of IFFs, as a cross-cutting objective and a core challenge to good governance. Furthermore, tackling Money Laundering, illicit financial flows, and recovery of stolen assets is one of the policy targets of GAP II, which committed the Bank to an update of the 2007 AML/CFT Strategy to include all forms of IFFs and recovery of stolen assets so as to provide a strategic basis for this work stream. It also commits to the following: emphasis on IFFs and ML issues in CSPs, RISPs and ESWs; the building of internal capacity to effectively drive policy dialogue on these issues in RMCs and the continent; support to RMCs and RECs in developing necessary policies, strategies and safeguards and in building capacities to address IFFs and recovery of stolen assets; and strengthening strategic partnerships with key partners in addressing IFFs. This strategic framework and action plan will operationalize these commitments.

3.1.3 The Integrity Due Diligence (IDD) Policy and Guidelines for Non-Sovereign Operations is closely linked to the proposed Strategic Framework, in that the sources of the risks addressed by both are common. The IDD Policy seeks to mitigate integrity risk. For pertinent risks to be identified, assessed, monitored and mitigated, at various stages, record keeping and knowledge management by the Bank will need to be better structured. In its capacity support initiatives, the proposed Strategic Framework will heavily rely on mobilizing, analyzing and making information on ML, FT and other IFFs in Africa accessible to stakeholders, including governments, civil society and the media.

3.1.4 The Anti-Illicit Financial Flows Policy expands the scope of the Bank's IFFs work and enables the Bank to align the scope of IFFs with that of ML. In addition, provides the basis for the Bank to enhance support to its RMCs to combat IFFs, by setting out the capacity requirements for this support. It also provides the basis for the Bank to enhance its collaboration with FATF-Styled Regional Bodies (FSRBs) to combat Money Laundering and Terrorism Financing, in particular, and illicit financial flows, in general.

3.1.5 The Financial Sector Development Policy and Strategy stresses the importance of promoting a vibrant, robust, competitive and inclusive financial sector that is at the same time better able to attract and intermediate finance. Strengthening capacity to combat IFFs is conducive to the achievement of that ideal.

3.1.6 The Capacity Development Strategy (CDS) establishes a framework around which to structure various capacity development initiatives undertaken by the Bank in Africa.

3.2 Vision and Core Objective

3.2.1 The *vision* of the Bank is to have a continent that is free of IFFs and other major financial crimes by 2030.

3.2.2 The core objective of the Bank's Anti-IFFs work is to significantly contribute to the continent's response to the threat of IFFs. In the course of the implementation of the Strategic Framework and Action Plan, the Bank hopes to achieve this objective by: (i) **enhancing the capacity** of the Bank to combat IFFs; (ii) increasing its **support** to mandated institutions and non-state actors in combating IFFs; and (iii) **strengthening** international co-operation against IFFs.

3.3 Guiding Principles

The Bank will be guided by the following principles:

- i. *Conformity with the TYS governance and accountability agenda* will be key for all Bank Group's governance interventions, including its activities in combating IFFs. The Strategic Framework complements the inclusive growth agenda of the TYS by prioritizing measures to enhance revenue mobilization and suppress economic crime in African countries.
- ii. *Selectivity and Value addition*: The Strategic Framework prioritizes areas in which the Bank is well positioned to make a substantial contribution to the body of knowledge that should inform coherent responses and focuses the Bank's interventions in areas where it can add value. Central to value addition is the generation of knowledge on ML/FT and IFF risks pertinent to African economies, on types and trends of ML/FT and IFFs and on strategies to combat these activities. Success will be judged by the quality of the Bank's contribution to policy dialogue and the impact made by the implementation support extended.
- iii. *Synergy with the rest of the Bank's portfolio*: The link between the Bank's operations to combat IFFs and the rest of the Bank's portfolio will be critical. The Strategic Framework will involve, and seek to benefit from the accumulated expertise residing in the African Natural Resources Centre and the Transition States department. Compliance mechanisms will be based on the extent to which Anti-IFFs interventions support other strategies being implemented by the Bank.
- iv. *Complementarity with partners*: The Bank cannot, in isolation, achieve the vision of the Strategic Framework or even the aspirations expressed in its various pillars. The enormity of the demand, the range of activities involved, and the area that has to be covered, add to the complexity of the tasks. The Bank will therefore work with partners that have established a track record of engagement in IFFs to maximize the impact of its work and minimize the wastage of resources. It will also identify new partners with potential to contribute.

3.4 Bank Group Positioning and Comparative Advantage

3.4.1 The Bank's involvement in combating ML/FT and other IFFs is predicated on the Bank's overall mission, which is to promote development, alleviate poverty, promote good governance, strengthen financial institutions and prevent corruption as articulated in the 2007 AML/CFT Strategy. The operational activities of the World Bank, IMF and Asian Development Bank in this area are focused on technical assistance to support the strengthening of legislative framework, national risk assessment and preparation of national AML strategies. They accomplished this mainly through workshops, mentorships, and advisory services and by engaging client countries and other relevant international organizations to influence policy changes. Given the Bank's experience in the area of institutional support projects (ISPs), the Bank is well positioned to add value and complementing support of the other donors by assisting in strengthening

AML/CFT institutions and building capacity, through ISPs, to enable countries not only to be compliant to FATF recommendations but also to be well equipped to tackle ML and FT adequately. In view of current paucity of support in this area, the Bank has an opportunity to create a niche for itself in the major areas of support for institutional (infrastructure) and human capacity building which is key to the fight against IFFs in the region.

3.4.2 The needs of the Financial Intelligence Units (FIUs) and other related agencies in RMCs, especially in the area of institutional and human capacity building, are enormous and are hardly met by the Governments, especially in the low capacity countries and fragile states. The FIUs and similar agencies that are designated to counter corruption and economic and financial crimes are, in most case, not properly funded because some authorities do not consider IFFs issues a priority and, in some cases, these agencies are viewed with suspicion and their activities seen as a threat. Support from the Bank for institutional (infrastructure and regulatory framework) and human capacity building is therefore, key to these agencies. They need the requisite tools to do their work (analytical software and hardware, among others).

3.4.3 Also the Bank has a wealth of experience in the design and implementation of Budget Support Operations and could use the leverage of this instrument to influence countries to take actions in the IFFs sphere by including in its policy reform measures, reforms in the area of AML/CFT regimes, including the legislative framework and compliance with FATF recommendations; and requirement for strong national AML/CFT institutions, such as FIUs, Trans-National Organized Crime Units, and Investigative Capacity and effective judicial systems that are well equipped to adjudicate AML/CFT cases.

3.4.4 Moreover, the Bank Group has considerable leverage as the preferred partner of African states. A program of action to address crime and security issues impacting on development, adopted by African leaders from 47 States at the Round Table for Africa held in Abuja, Nigeria, in September 2005, included a cluster focusing on organized crime, Money Laundering, corruption, trafficking and terrorism. With respect to AML/CFT in particular, the program of action identified three priorities for action and specifically identifies the African Development Bank as a key partner for these activities. They are: (1) developing national laws and strategies in compliance with international standards and norms; (2) building institutional capacity, including setting up financial intelligence units to implement national laws and strategies; and, (3) supporting and assisting the establishment of effective and operational sub-regional organizations to combat Money Laundering.

3.4.5 Over the years, the Bank has developed close working relationships with officials and key stakeholders in its RMCs and has increasingly assumed leadership role in policy dialogue and thematic donor groupings. The Bank therefore has considerable leverage, as a preferred and trusted partner, in policy dialogue on IFFs issues with its client countries and development partners. This coupled with its African character, positions the Bank Group to act on issues affecting Africa and in engaging RMCs in sensitive governance policy dialogue (including IFFs). In view of the important role of dialogue in enabling IFFs reforms, in implementing the Strategic Framework and Action Plan, the Bank will step up country level and regional policy dialogue in this area.

3.5 Strategic Themes & Priorities

3.5.1 The Strategic Framework and Action Plan represents the Bank’s response to the challenges of IFFs in Africa. Table 1 summarizes the strategic orientation and lists the vision, objectives, and the pillars of the Strategic Framework, including expected impacts, expected outcomes and the output/activities to support them. The detailed result measurement framework is presented in appendix 2.

TABLE 1: STRATEGIC ORIENTATION OF THE BANK GROUP’S STRATEGIC FRAMEWORK AND ACTION PLAN FOR THE PREVENTION OF ILLICIT FINANCIAL FLOWS IN AFRICA		
VISION STATEMENT	A continent that is free of illicit financial flows and other major financial crimes by 2030.	
CORE OBJECTIVES	(i) To enhance the capacity of the Bank Group to combat ML, FT and other IFFs; (ii) To support mandated institutions and non-state actors in combating ML, FT and other IFFs; and (iii) To strengthen international co-operation against ML, FT and other IFFs.	
	PILLAR 1: Strengthening the Capacity of RMCs and RECs to Fight IFFs	PILLAR 2: Strengthening Internal IFFs Safeguards and Knowledge Management
IMPACT	Improved responses to Money Laundering, the financing of terrorism and other illicit financial flows in Africa	
EXPECTED OUTCOMES	<ul style="list-style-type: none"> Enhanced participation in AML/CFT capacity building initiatives by the Bank in collaboration with other development partners. Enhanced institutional and human capacity of FSRBs, National FIUs and Economic and Financial Crime Agencies Enhanced AML/CFT framework in RMCs Accessible, searchable database Links established with African FIUs National risk assessments conducted by all RMCs with the Bank’s assistance Significant ML and IFFs networks and routes/methods mapped Enhanced interventions by civil society organizations against ML, CFT and other IFFs. Increase in the membership of African FIUs in the Egmont Group Enhanced regional and states stability through reduction of proliferation financing and proliferation of small arms and light weapons. 	<ul style="list-style-type: none"> Improved assessment of ML, FT and other IFFs risks pertinent to Bank operations Enhanced skills and tools to identify ML, FT situations Enhanced AML/CFT verification procedures for non-sovereign operations (check-list of red flags for use in IDD) IFF practices mainstreamed into transactions to which the Bank is a party IFF issues mainstreamed into all Bank Group future CSPs, RISPs and ESWs On-line repository of information on IFFs developments Disclosure of beneficial ownership of corporations and trusts a common requirement in CDD
ACTIVITIES	<ul style="list-style-type: none"> Provide technical and financial support to FSRBs, National FIU and Economic and Financial Crime Agencies to enhance their capacities, including institutional and human capacity. Provide assistance for development and implementation of national AML policies and strategies. Provide technical and financial support to RMCs to strengthen their institutions and improve their AML/CFT framework and implement international AML/CFT standards Support and assist the establishment of effective and operational FSRBs in regions where they do not currently exist. Field research to establish and update trends of ML, FT and other IFFs Update and circulate typologies of ML, FT and other IFFs Maintain an online repository of information on ML, FT and other IFFs Provide financial and technical support to national risk assessments Participate in FSRB periodical meetings Provide support to civil society organizations active in IFFs work Collaborate with and Support development of African institutions studying ML and IFFs. Prepare and circulate advice through Policy Briefs Support establishment of regional networks on recovery of stolen assets and strengthen existing networks. Through the ALSF, provide support to RMCs to strengthen their legal expertise and negotiating capacity in recovery of stolen assets. Provide assistance to build capacity of tax authorities to tackle tax evasion. 	<ul style="list-style-type: none"> Acquire IT tools for filtering suspicious payments, and customer data Internal Capacity Building for Bank staff and preparation of tool kits to assist staff to recognize suspicious AML/CFT activities. Prepare and update database on clients and check-list of key red flags for use in IDD Mainstream IFF practices into transactions to which the Bank is a party. Mainstream IFF issues into all Bank Group future CSPs, RISPs and ESWs, taking into account the systematic mainstreaming into these documents of IFFs risks, especially in fragile states Post-transaction integrity risk reviews to monitor IFFs risks in on-going Bank supported operations Update and regular review of database on internationally recognized terrorists, sanctions and embargo lists Integrity due diligence exercise as part of appraisal process of all Bank supported operations Review KYC procedures and monitor the Bank’s correspondent banks’. Identify products, services, assets and opportunities abused for ML, FT and IFFs

	<ul style="list-style-type: none"> • Promotion of citizens' awareness on anti-corruption complaint and the dangers of ML and FT. • Support competent authorities in RMCs in their efforts to combat proliferation financing and the proliferation of small arms and light weapons. • Establish links with all African FIUs • Evaluate effectiveness of international co-operation in ML, CFT and IFFs cases • Update data on trends of IFFs through collaborative field research with partner organizations • Engage in international debates on IFFs • Periodically review effectiveness of measures to stem IFFs, by reference to volume shifts • Prepare and circulate advice through Policy Briefs 	<ul style="list-style-type: none"> • Establish and update trends of IFFs through research • Update and circulate typologies of IFFs • Prepare and circulate advice through Fact Sheets
INSTRUMENTS	<ul style="list-style-type: none"> • Institutional Support Projects • Program Based Operations (PBOs) • Technical assistance • Policy advice • Fact Sheets setting out the Bank's standpoint, role, capacity and work • Advisory Policy Briefs • Revised Bank documentation which incorporates IFFs safeguards • Presentations at FSRB meetings and Conference presentations • Fee-based advisory services • Public media – including television interviews, documentaries and podcasts • Research • Publications 	<ul style="list-style-type: none"> • Training Manual on IFFs • KYC Manual • Online database accessible through the Intranet • Training workshops • Advisory & Information sharing Fact Sheets setting out the Bank's standpoint, role, capacity and work • Refresher Courses • Information Technology (IT)

Pillar 1: Strengthening the Capacity of RMCs and RECs to Fight IFFs

3.5.2 In order to avoid duplicating effort and wasting resources, while ensuring coherence of the support afforded to RMCs, the Bank will strengthen its collaboration with all FSRBs. It will prioritize support for FSRBs to enable them to meet the technical assistance needs of RMCs, in particular, the National FIUs, Economic and Financial Crime Agencies and other similar organs. It will also prioritize participation at FSRB (such as GIABA, ESAAMLG and GABAC) technical commission and plenary meetings as is currently done by other development partners such as the World Bank, IMF, EU, UNODC, amongst others.

3.5.3 Following refinements of FATF Recommendations in 2012, all RMCs are required to conduct national assessment of ML and FT risk (NRAs). NRAs processes are expected to put pressure on all countries to mobilize statistics on levels of crime and corruption that are significant to ML. The Bank would in collaboration with the World Bank, IMF and the FSRBs, provide financial and technical assistance to RMCs in conducting NRAs. The engagement is expected to encourage them to include consultations with non-state actors in compiling such statistics, and to publish the outcome as part of the assessments. This should provide an entry point for sectors hitherto under-represented in AML and CFT.

3.5.4 Compliance with the FATF Recommendations is the primary tool to facilitate international AML/CFT cooperation. The Recommendations have been complemented by structures such as the Egmont Group of FIUs, and the pressure exerted by development partners. At the time of writing, twenty-one African FIUs were members of the Egmont Group.⁹ The Bank will encourage and assist RMCs that are not yet members of the Egmont Group to upgrade the capacity of their FIUs to qualify for membership of the

⁹ The African members of the Egmont Group as at 30 August 2014 were Algeria, Angola, Burkina Faso, Cameroon, Chad, Cote d'Ivoire, Egypt, Gabon, Ghana, Malawi, Mali, Mauritius, Morocco, Namibia, Nigeria, Senegal, Seychelles, South Africa, Tanzania, Togo and Tunisia.

Egmont Group. The Bank will also establish a formal relationship with the Egmont Group, at the level of its Secretariat in Toronto, Canada.

3.5.5 IFFs present a significant threat to African economies. As the Strategic Framework's aspiration is to support the conduct of national ML/FT and IFFs risk assessments by RMCs, the Bank would seek to raise the profile of IFFs in risk assessments. This includes an evaluation of the effectiveness of domestic legislation and international cooperation in combating trans-national IFFs. In this regard the enhancement of transparency of beneficial ownership would be prioritized in the implementation of the strategic framework and action plan, complementing the implementation of FATF Recommendations 24 and 25.

3.5.6 The Bank would work with RMCs and its partners to identify areas where policy alignment is required between African countries and destinations of IFFs derived from Africa. Apart from encouraging legislative changes to achieve such alignment, it will also be useful to push for mutual assistance treaties that promote the sharing of tax-relevant information between African countries and destinations of IFFs. The Strategy should be aligned with initiatives to achieve fairer international corporate taxation. The African Tax Administration Forum, the Tax Justice Network-Africa and the International Centre on Tax & Development are possible partners.

3.5.7 Although greater awareness has been built and more personnel trained at various institutions, there are still too few African organizations researching on ML and IFFs. A network of African institutions that will become a source of expertise and capacity should be established. A number of universities and tertiary institutions will be identified across the various sub-regions for this purpose, in consultation with FSRBs and RMCs.

3.5.8 There is a need for concerted effort in Africa to stem IFFs and recover stolen assets from the continent. While flows of corrupt assets have been identified within Africa, there is limited exchange of information amongst the countries of the continent on these flows as a result of limited capacity and resources, amongst others. There is a need for greater sharing of information or good practices, on issues such as mutual legal assistance amongst the countries. This will contribute to building the experience and knowledge critical to deal with financial centers in the recipient countries of IFFs and tax havens. The Bank will support the setting up of regional network on asset recovery where they do not exist and strengthen them where they do. By doing so it will contribute to bridging the gap in resources and knowledge in the continent.

3.5.9 The Bank's engagement in helping RMCs address the problem of asset recovery would be approached from two dimensions. First, it should be recognized that theft of public assets is facilitated by lack of transparency and public accountability. This therefore calls for the strengthening of legal, financial and public financial management systems in RMCs. Second, it should be noted that even when the political will exists in RMCs to pursue the recovery of stolen assets, legal differences across jurisdictions or the unwillingness of recipient countries of the stolen assets to cooperate can derail the asset recovery process. The Bank may therefore, assist by providing needed legal and technical assistance to RMCs which could include financial assistance to defray the legal cost, help in filing a request for mutual legal assistance, and advice on experts needed. The Bank would however, not get directly involved in the investigation, tracing, law enforcement, prosecution, confiscation, and repatriation of stolen assets.

3.5.10 The operational program under Pillar 1 are intended to address the challenges identified in section 2.2 at country and regional levels and requires the Bank to engage with stakeholders at various levels. Table 2 has accordingly been subdivided into three Key Result Areas (KRAs), KRA 1 pertains to RMCs, while KRA 2 relates to the work the Bank will do with non-state actors and KRA 3 has to do with cooperation with international partners engaged in IFFs work.

TABLE 2: POLICY TARGETS AND OPERATIONAL PROGRAMME FOR PILLAR 1		
Policy Targets	Areas of Bank Group Program	Possible partners and Comments
Key Result 1: Capacity of RMCs to combat ML, FT and other IFFs is enhanced		
Developing in-country capacity to conduct valid and reliable national risk assessments	Synthesis and analysis of data to map IFFs in Africa - Proposed EFIT in collaboration with other Bank departments.	Possible partners to be consulted include the OECD, IMF, FATF, World Bank, GIABA, ESAAMLG, MENA-FATF
Providing assistance for the development and implementation of national AML/IFFs policies and strategies, based on the identified risks	Provide support to RMCs in developing National Action Plans on IFFs. Support RMCs and RECs in developing necessary policies, strategies and safeguards; and in building capacity within their financial systems and at the sub-regional level, to address the issues of Money Laundering, illicit financial flows and recovery of stolen assets; Research, analysis and Policy advice – OSGE in consultation with regional and field offices and FSRBs	FATF, GIABA, ESAAMLG
Training staff of reporting institutions to identify suspicious financial transactions	Proposed EFIT, IACD on the basis of the most recurrent ML, FT and IFF routes identified and included in the mapping.	National FIUs, GIABA, ESAAMLG, MENA-FATF Egmont Group
Training personnel to identify and collate official statistics relevant to ML and IFFs	Through operations, such as ISP and other capacity building activities the Bank will provide financial and technical supports directly to countries and through the FSRBs	National FIUs, GIABA, ESAAMLG, MENA-FATF Egmont Group
Support the establishment of regional networks on the recovery of stolen assets and provide assistance to build expertise in this area.	Promote the exchange of information to facilitate the freeze, confiscation and return of assets; Leverage the network of regional contact points to promote the sharing of experiences and good practices; RMCs to establish national asset recovery functions; Support national institutional and capacity building to undertake asset recovery including training for Magistrates and Judges and Anti-corruption Authorities and as well as relevant associations.	Stolen Asset Recovery Initiative - StAR (World Bank and UNODC), Asset Recovery Inter Agency Network for Eastern Africa-(ARIN-EA) National FIUs, GIABA, ESAAMLG, MENA-FATF, ALSF
Enhance capacity of tax authorities to gather information on tax evasion to enable them benefit from the Automatic Information Exchange (AIE) mechanism.	In collaboration with other international donors, assist RMCs build institutional capacity to strengthen their system of information collection to allow full reciprocal information exchange by African countries; Assistance to build human capacity and information technology to analyze information related to tax evasion and IFFs; Support RMCs to put in place appropriate legal framework to promote wider access to information and greater transparency with a view to promoting the fight against IFFs; Collaborate with the African Tax Administration Forum (ATAF) and similar bodies to advocate for the extension of the AIE mechanism to African countries; Through the African Legal Support Facility (ALSF), provide support to RMCs to strengthen their legal expertise and negotiating capacity in issues relating to AIE.	ALSF, ATAF and similar organizations.
Prioritization of IFFs capacity building in Fragile and Transition States	Emphasis should be placed on national risk assessments in fragile states, followed with training of staff in sectors identified to be vulnerable.	World Bank, IMF, National FIUs in Fragile and Transition states.
Capacity building for law enforcement agencies in financial investigations, financial analysis, and AML.	Support national institutional and capacity building to undertake financial investigations, financial analysis and adjudications on IFFs cases including training for Police Officers, Investigators, Prosecutors, Magistrates and Judges and Anti-corruption Authorities and as well as relevant associations.	National FIUs, GIABA, ESAAMLG, MENA-FATF
Training of FIU personnel in case analysis and the collation and analysis of official statistics relevant to ML and IFFs	Upgrading FIU capacity is a recurrent technical assistance need. A business plan to achieve this needs to be formulated for discussion with FSRBs. This would be developed on the basis of records of the activities predicate to ML and IFFs, such as the tax gap, differences between declared and actual trade etc.	AUSTRAC, Egmont Group, GIABA, FATF.
Establishing a network of African institutions on IFF	Set out the criteria for the selection of institutions to lead research and data update activities. Once selected, and the terms of collaboration are agreed, adopt a work program which is aligned to the Strategy	The FSRBs can assist in this respect. Centers of excellence in Africa established with assistance from the Bank are possible candidates.
Capacity building of FIUs and other competent authorities in RMCs to support their efforts of combating proliferation financing and the proliferation of small arms.	Support RMCs to implement cross border structures and processes, including Small Arms Tracing System Software and training in their use. Provide financial and technical support to RMCs in their efforts to deal with proliferation financing.	FATF, Regional Centre on Small Arms (RECSA)
Key Result 2: The capacity of non-state actors to hold state institutions and accountable bodies to account is enhanced		

Enhancing access to information on the scale and incidence of relevant crimes	Use national risk assessment to raise the involvement of non-state actors in measuring levels and incidence of crime and corruption. Engage with RMCs to regularly publish statistics on crime and corruption	
Enhancing transparency in beneficial ownership	Find and make information available on corporate networks in Africa Collaborate with the GAP II implementation team and other partners, find and make information available on the funding of political parties in Africa	
Ensuring access to information relevant to tax justice	Collaborate with the African Legal Support Facility, and other partners to access data on income and cost distribution structures in MNCs implicated in corporate malpractices	Action Aid, Financial Transparency Coalition and the UNECA Panel are possible partners
Enhance civil society networking against ML and other IFFs and building public confidence in state institutions	Conduct and promote the analysis of the impact of ML and IFFs to highlight the public interest in their suppression; Support the organization of events, workshops and trainings to enhance the role of civil society organizations in detecting corruption cases, ML, and their efforts to recover stolen assets.	Learning opportunities to update civil society, media and other non-state actors should be provided
Support promotion of citizens' awareness on anti-corruption complaint mechanisms and the danger of ML and FT	Provide support for National anti-corruption agencies and AML bodies to organize events targeting youth movements, anti-corruption youth activists, members of the media and the press with the objective of empowering the youth and securing the cooperation of all stakeholders in the fight; support the establishment (where they do not exist) or strengthen (where they exist) national institutional for receiving and processing citizens complains on corruption and IFFs	
Key Result 3: Cooperation with International Partners to combat ML, FT and other IFFs is enhanced		
Collaboration to promote wider access to information and greater corporate transparency	The quality of AML/CFT regimes can be improved by requiring beneficial ownership to be disclosed in CDD processes in all RMCs. The term 'beneficial ownership' being potentially ambiguous, should be universally defined. The Bank will work with RMCs and the FATF on this aspect, and to develop the monitoring frameworks.	The Strategy should be aligned with initiatives to achieve fairer international corporate taxation. The Tax Justice Network and the International Centre on Tax & Development are possible partners
Align Strategy with those of FSRBs	Progress in the adoption of legislation against transfer mispricing needs to be encouraged and tracked Encouraging and assisting countries to strengthen and prioritize the implementation of existing international standards or commitments established by the African Union, United Nations, FATF and other relevant groups.	Collaboration with the African Legal Support Facility is important
Encouraging membership of the Egmont Group by RMCs FIUs.	The Egmont Group provides a forum for FIUs around the world to enhance support to their respective governments in the fight against ML, FT and other financial crimes. Benefits of membership include: (i) access to the reciprocal exchange of financial intelligence information; (ii) training and personnel exchanges to improve the expertise and capabilities of personnel employed by FIUs; and (iii) fostering better and secure communication among FIUs through the application of technology.	Egmont members are able to exchange operational information knowing that the information is communicated in a secure way, will be safeguarded at the receiving end, and acted upon appropriately and in a timely fashion.
Enhance participation in international fora on IFFs	As observer member of FATF, GIABA, ESAAMLG, MENA-FATF, participate in the meetings and plenaries of these international AML/CFT and similar organizations.	FATF, GIABA, ESAAMLG, MENA-FATF, Egmont Group, etc.
Providing legal assistance for the recovery of stolen assets, in the context of international cooperation.	Through the ALSF, provide support to RMCs to strengthen their legal expertise and negotiating capacity in recovery of stolen assets.	ALSF
Conducting joint projects and operations with other international organization working in the field of IFFs.	Strengthen strategic partnerships with key institutions (e.g., World Bank, EU, etc.) by undertaking joint operations (projects and budget support operations) that addresses, amongst others, issues of ML and IFFs in RMCs and at regional levels.	World Bank, EU, USAID, DFID, National FIUs, FATF, GIABA, ESAAMLG, MENA-FATF.

Pillar 2: Strengthening Internal IFFs Safeguards and Knowledge Management

3.5.11 The primary IFFs risk confronting the Bank, as a lending and disbursing financial institution, is the use of its funds to commit or conceal criminal or terrorist activities. The Strategic Framework will prioritize practices and internal mechanisms to enhance the vigilance required to identify suspect situations and transactions. It will build on, and utilize the regime of measures proposed in the Integrity Due Diligence Policy and Guidelines. Where possible, these measures will be extended beyond transactions with non-sovereign counterparties.

3.5.12 The Strategic Framework proposes to improve the capacity of Bank staff to implement the IFF measures that it endorses. It proposes to do this through training programs to increase the awareness of staff to the seriousness and prevalence of IFFs in RMCs, of the typologies of each of these activities and the weaknesses that exacerbate them. Also, tool kits to assist Task Managers identify and verify IFFs activities would be developed. Task Managers would also be trained on how to mainstream IFFs practices into Bank financed operations (in particular ISPs and Budget Support Operations), country strategy papers and policy dialogues with RMCs and taking into account the implications of IFFs risks and measures to tackle them especially in fragile states. Training courses for relevant Bank staff covering the basic elements of IFFs and the main channels used to facilitate IFFs in Africa would be a priority. The training will be complemented at regular intervals with updates designed to acquaint staff with emerging threats of all these activities. Training would, as far as possible, be case-study based, and be informed by contemporary trends of IFFs.

3.5.13 The Strategic Framework commits the Bank to improve the aspects of its work, which relate to its fiduciary responsibility to stakeholders. Firstly, the Bank will need to enhance due diligence at two levels, at the country level, as well as in respect of internal controls and safeguards in particular with respect to specific prospective counterparties, management and control of IFFs risks, and regular audits. This calls for a pre-emptive approach which envisages an assessment of IFFs risks that prevail in the Bank's RMCs and within the Bank's operations. At the country and regional levels, it is necessary for such risks to be profiled in respective CSPs and RISPs to alert the responsible Bank staff. Risk assessments may be based on the national risk assessments prepared by the RMCs themselves or be derived from alternative, credible sources.¹⁰ The Bank's regular monitoring of the implementation of projects that it funds should complement the above aspects of its work.

3.5.14 The Bank will review its Know Your Customer's (KYC's) procedures and intensify the monitoring of its correspondent banks. To do this, the Bank will need to acquire IT tools for filtering not only suspicious transactions, but all transaction data from inception (vendors and project creation in SAP and DACON). Several solutions exist in the IT industries such ACCUITY KYC due Diligence Data File that could integrate critical counterparty and beneficiaries AML and KYC information in the Bank's existing software (SAP, DACON, BAOBAB) to ensure effective and ongoing monitoring of the Bank's customers. The IFC for instance uses Fircosoft for compliance trade finance and customer monitoring. Increased automation of the Bank's due diligence processes would ensure enterprise-wide data consistency across master and downstream applications as well as a centralized, consistent 'single view' of all customer data across the Bank.

3.5.15 Given its comparative advantage in terms of access to information the Bank will work towards making significant addition to knowledge that is relevant to developing the capacity essential to combat IFFs in Africa. Resources and efforts will be devoted to mobilizing, analyzing and making information on IFFs in Africa accessible to internal and external stakeholders, including governments, civil society and the media.

3.5.16 The operational programs under Pillar 2 are intended to address the challenges identified in section 2.2 at the Bank Group level and calls for a One-Bank approach with the proposed EFIT engaging both

¹⁰ The mutual evaluations conducted by FSRBs provide useful data which can be used in assessing ML and FT risk. In addition, various development partners regularly publish reports on economic crime and corruption in various RMCs.

internal and external stakeholders at various levels. Table 3 has accordingly been subdivided into two Key Result Areas (KRAs), KRA 1 pertains to measures to build capacity for IFFs safeguards within the Bank, while KRA 2 relates to the work the Bank will undertake to build, manage and share knowledge with both internal and external stakeholders in the field of IFFs.

TABLE 3: POLICY TARGETS AND OPERATIONAL PROGRAMME FOR PILLAR 2

Policy Targets	Areas of Bank Group Program	Comments
Key Result 1: Capacity of Bank Staff to mainstream and implement IFFs measures is enhanced		
Provide learning opportunities for Bank staff	Guidelines on mainstreaming IFFs in to Bank operations, CSP, RISP, etc., would be prepared and staff trained on the process of mainstreaming. Staff will be drawn from all relevant organizational units in the Bank. Staff will participate in refresher courses to keep abreast of evolving trends, and responses.	Refresher courses will be convened in collaboration with partner organizations, the FSRBs and FATF.
Streamlining of roles	Role of each department would be identified and defined in the Operational Guidelines and Procedures, and their working relationship with the proposed EFIT defined. Targets that each should meet set and clarified.	
IFF internal control and safeguards incorporated into Bank transactions	The safeguards should result from technical expertise emanating from the trained staff, with input from Proposed EFIT, Proposed IFFs Compliant Team, IACD, FTRY, ORPF, GECL and Regional and Field Offices.	Check list of red flags to be used in conducting IDD should be developed. The list will be updated and used with the lists of terrorist organizations regularly circulated by the UNCTED
Mainstream IFFs practices and issues into CSPs, RISPs, ESWs and operations (especially ISPs and Budget Support Operations)	Emphasize illicit financial flows and Money Laundering issues in CSPs, RISPs, and ESWs, and build internal capacity to effectively drive policy dialogue on these issues in RMCs and at the sub-regional level; Mechanisms to be agreed between the Proposed EFIT, Proposed IFFs Compliant Team, IACD COSP, ANRC, ORTS, OFSD, and other Operations Departments, including Regional Departments.	
Review KYC procedures; introduce the use of modern tools for KYC due diligence; and strengthen the monitoring process of correspondence banks.	Increased automation of the Bank's due diligence processes to ensure enterprise-wide data consistency across master and downstream applications as well as a centralized, consistent 'single view' of all customer data across the Bank; Prepare a KYC manual and train staff in its use; Acquire and implement IT tools for filtering suspicious payments, and customer data; and strengthen measures to identify, manage and control IFFs risks as indicated in the Anti-IFFs Policy. (FTRY and the proposed IFFs Compliance Team).	ACCUITY, Fircosoft, etc.
Key Result 2: Relevant, up to date data on ML, FT and other IFFs is developed and made accessible to stakeholders		
Develop database on IFFs	Should include data on beneficial ownership of corporate entities, entities operating in prohibited industries, terrorists and criminal organizations, and case studies on illicit trade	
Providing evidence to support IFFs national risk assessments in African countries	Best methodology for data collection and analysis will be determined in the early stages. Some reliance will be placed on the FATF (and IMF/World Bank) methodology. For IFFs, the OSCE methodology may be used as the core of a methodology that also takes into account proxy indicators. The main output is a web-accessible, e-database.	If established, the proposed Economic Governance and Financial Systems Integrity Unit/Division would lead consultations with the FSRBs, FATF, the World Bank and IMF. The field work has to involve selected African research institutions
Tracking and mapping trends of IFFs generated by illicit commodities	This task will be accomplished in phases. The Bank will partner with the OECD and an FSRB in collating the literature and conducting field research	Data on typologies of ML/FT and IFFs pertinent to the African region can be accessed from the various FSRBs and from other literature. Once established, the Economic Governance and Financial Systems Integrity Unit/Division would develop a repository of these and other data in the Bank and regularly updated them as a resource of the Bank.
Tracking and mapping IFFs generated by illicit commercial practices	This task will also be accomplished in phases. The Bank will partner with the OECD and an FSRB in each phase.	
Tracking and mapping beneficial ownership networks	For IFFs, this is a critical part of the work. The network mapping will be conducted by the proposed EFIT, using open sources, corporate registers and input from knowledgeable departments within the Bank. The network maps should be usable for IDD and by RMCs.	Relevant Bank Staff would require training in network mapping.

IV. PROPOSED STRUCTURE AND FINANCING FOR IMPLEMENTING THE STRATEGIC FRAMEWORK AND ACTION PLAN

4.1 The tasks set out for the Bank under the proposed Bank Group IFFs Strategic Framework and Action Plan as enunciated in section 3 above and in appendix 2 are onerous and broad ranging. They call for a set of skills that are not currently located in a single department in the Bank. The current approach of having a focal person in OSGE to coordinate IFFs activities in the Bank will no longer suffice given the magnitude of responsibilities expected of the Bank under the proposed Strategic Framework and Action Plan.

4.2 Currently, the general tendency is that most MDBs are moving towards consolidating IFFs roles in their institutions. The general trend is to consolidate the external IFFs activities under a single organizational unit, while most of the internal IFFs Compliance activities are consolidated and handled by a single office. In particular, a clear distinction is made between the external role – supporting RMCs and RECs in implementing IFF policies, advocating in the global arena, providing advisory services; and the internal function, ensuring that the Bank resources are not directly or indirectly exposed to IFFs. This approach is advocated because the set of skills and expertise required is relatively different for the two functions.

4.3 Consequently, Management is proposing the creation of a IFFs Operations and Advisory Team (or Group) (Economic and Financial Integrity Team or Group), as part of the Governance and Public Financial Management Coordination Office, under the Chief Economist and Vice President, for Economic Governance and Knowledge Management. The functions of the proposed Economic and Financial Integrity Team (EFIT) would be mostly focused on external IFFs activities and coordination. It would be responsible for handling all IFFs operations, dialogue with external stakeholders/partners and the coordination of all IFFs activities within the Bank. In addition, it is being proposed that all IFFs Compliance activities be consolidated under a IFFs Compliance Team within the IACD. The IFFs Compliance Team would be responsible for issues of ex-ante integrity due diligence, and anti-IFFs.

The Proposed Economic and Financial Integrity Team (EFIT)

4.4 The proposed Economic and Financial Integrity Team, which will mostly focused on external activities and coordination, would be the main organizational unit responsible for the conduct/coordination of the Bank's IFFs work. It would lead collaboration and consultations with the external stakeholders including RMCs, FSRBs, FATF, the World Bank, IMF and Global Financial Integrity on IFFs issues. It would lead the preparation of IFFs related operations for the provision of financial and technical assistance to RMCs. The EFIT will also provide advisory services and training to RMCs in the areas of IFFs. It will oversee engagement on regional and global initiatives on IFFs. A draft terms of reference for the proposed EFIT, and details on how its activities would be financed as well as details on its proposed structure, indicative work plan, costing and implementation responsibilities are provided in appendix 2. In carrying out its mandate, the proposed Economic and Financial Integrity Team will interact with and support other departments/organizational units of the Bank tasked with IFFs related work, and provide internal coordination for the activities of these departments/organization units in the area of IFFs.

4.5 In view of current resource constraints, the initial staff of the proposed office could be drawn from the existing staff complement of the Bank. The proposed EFIT could be established through internal

redeployment of the relevant staff (with diverse skill mix, including financial sector specialists, governance experts, and lawyers), in a process in which the tasks envisaged are clearly laid out. The initial staffing of the office should consist of six (6) staff. (See Appendix 2.2 for details). This could be supplemented by the use of consultants where the skills required by the various tasks do not currently reside within the Bank.

The Proposed IFFs Compliance Team

4.6 The proposed IFFs Compliance Team, to be located within IACD, will mostly focus on IFFs compliance issues. It would be the main organizational unit responsible for managing and maintaining the Bank Group's obligations as it relates to the supervision and reporting of Money Laundering and other IFFs activities. It would be responsible for designing, evaluating, supporting, and influencing a culture of compliance throughout the Bank Group, as well as assisting in the management and execution of an efficient compliance monitoring program. It will be responsible for maintaining a robust approach to Integrity Due Diligence (IDD) on prospective Bank Group's clients and projects including (but is not limited to) risks and issues such as: ownership structure and the identity of ultimate beneficial owners; origins of a company and the source of wealth of key figures; business practices and associations with counterparties; presence of Politically Exposed Persons (PEPs); quality of AML and CFT controls; project-related Know-Your Customers (KYC) functions concerning borrowers (non-sovereign operations) and investment companies, (such as private equity funds); reliance on government-issued licenses and permits; and use of offshore jurisdictions.

IFFs Role of Relevant Bank Units

4.7 The establishment of the proposed Economic and Financial Integrity Team and the IFFs Compliance Team in IACD, notwithstanding, some of the existing organizational units, dealing with internal IFFs function, including GECL, FTRY and ORPF, will continue to play their role. For instance, ORPF will continue to undertake fiduciary risk assessment and procurement reforms which contribute to mitigating IFFs risks.

4.8 *Know-Your Customer.* With regard to the Bank Group's correspondent banks, FTRY will be responsible for KYC functions relating to correspondence banks and will undertake documentation and justification of payments and beneficiaries, screening of outgoing payments to ensure compliance with correspondent banks KYC/AML policies and investigating incoming payments to ensure compliance with the Bank operations. GECL will be responsible for leading the process of coordinating the Bank's responses to questions and enquiries from counterparties, rating agencies and other external parties on the Bank's IFFs practices and safeguards. It will also, in collaboration with FTRY, coordinate responses to requests in respect of KYC/AML by counterparties and correspondent banks. It will, in addition, be responsible for ensuring that relevant clauses on IFFs are included in loan/grant agreements. For KYC functions related to operations (lending/investment) particularly with regards to borrowers and investee companies in non-sovereign operations, IACD, OPSD, GCRO and GECL will harness the process under the existing Implementation Guidelines for Integrity Due Diligence for non-sovereign operations,¹¹ specifically the provisions on Beneficiary Identification.

¹¹ See Document ADB/BD/WP/2014/96/Rev.2/Add.1 • ADF/BD/WP/2014/64/Rev.2/Add.1

Financing of IFFs Assistance to RMCs

4.9 With regards to financing of the Bank’s IFFs projects, programs, and technical assistance to RMCs, it is proposed that a multi-donor Trust Fund for the Bank’s IFFs activities, similar to the IMF’s AML/CFT Topical Trust Fund, be established. The IMF Topical Trust Fund is currently supported by France, Japan, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland and the United Kingdom, which have jointly pledge more than \$20 million for the second Phase of the Fund (2014 – 2018).¹² In addition to donor contributions, the proposed IFFs Topical Trust Fund could also benefit from resources of the proposed Integrity Fund (IF) when established¹³. The IF is meant to finance measures which contribute to the prevention, the detection, the investigation and sanctioning of Prohibited Practices, which support the repatriation of stolen assets and/or which alleviate the financial drain from illicit outflows on RMCs. The objectives and areas and levels of intervention of the proposed Fund are in line with those of the Strategic Framework and Action Plan for the Prevention of IFFs. Specifically, amongst others, the Fund would assist the Bank’s RMCs in building and enhancing capacities to response to prohibitive practices and IFFs, which is one of the major thrust of the Strategic Framework.

V. RISKS AND MITIGATION MEASURES

5.1 The identified risks to implementation of the Revised IFFs Strategy are reflected in Table 4. For each, mitigation measures are summarized.

Risk	Mitigating measures
The skills and expertise required to deliver effectively on commitments may not exist at the Bank	Implementation will be structured to be commensurate with the build-up of the required skills and resources. Training schedules will be aligned with other relevant training activities in the Bank. Also, the Bank will use the opportunity of the on-going strategic staffing exercise to address the staffing needs for its IFFs activities.
Inadequate resources to support the full implementation of the strategy	If established, the proposed multi-donor Topical Trust Fund for the Bank’s IFFs activities will mitigate this risk.
Political will and inadequate commitment in some RMCs to undertake the required policy and regulatory reforms required to address ML and IFFs issues.	The Bank will engage in policy dialogue, using for instance, budget support operations, awareness building, targeted technical assistance, directly and collaboratively with FSRBs. In addition the Bank’s support to oversight institutions at country level, including NGOs and CSOs, would foster accountability and commitment in this area.
In supporting NGOs and Civil Society Organizations, the Bank could be perceived as being political in some RMCs.	The support to NGOs and CSOs will be limited to providing learning opportunities to update civil society, media and other non-state actors, as well as assistance in organization workshops and sponsorship to participate in IFFs related meetings.
The paucity of information, and reluctance of some sources to make information available to enrich the envisaged databases.	Establishing, maintaining and updating the database requires a dedicated division/unit within the Bank, with real time access to multiple sources of information, for instance from stock exchanges, corporate and deeds registries. The first two quarters of the implementation period will be dedicated to identifying the most important sources of information, negotiating with partner organizations that are in a better position to intermediate requests for information and conducting advocacy work with RMCs.

¹² See Appendix 3, paragraph 2.3 for details on the IMF’s AML/CFT Topical Trust Fund

¹³ Resources from the proposed Trust Fund, in particular, the Integrity Fund, will only fund Bank’s assistance to RMCs and not the staffing of the IFFs Units or the Bank’s own activities.

VI. CONSULTATION PROCESS FOR THE PREPARATION OF THE STRATEGY AND ACTION PLAN

6.1 The proposed strategic framework and action plan requires IFF issues to be mainstreamed into the operations of the Bank. The consultation process for its preparation is being undertaken at two levels: internal consultation within the Bank, and external and web consultation at the country and regional levels.

6.2 *Internal Consultation:* An IFFs Strategy Taskforce was established by the Bank in 2013 and mandated to elaborate and oversee the implementation of the Strategic Framework and Action Plan. The proposed Strategic Framework and Action Plan was prepared in collaboration with the Bank-wide Task Force on IFF. It was also subjected to Peer and OSGE Internal Quality Review processes, inter-departmental review, review by the Bank's Assets and Liability Management Committee (ALCO), and the Bank's Senior Management review and clearance, before embarking on external consultations.

6.3 *External consultations:* The content of the Strategic Framework and Action Plan will also be informed by consultation with the various FATF-styled regional bodies in Africa - including the East and Southern Africa Anti-Money Laundering Group (ESAAMLG), the Inter-Governmental Action Group against Money Laundering in West Africa (GIABA), the Middle East & North Africa Financial Action Task Force (MENAFATF) and Groupe d'Action contre le Blanchiment d'Argent en Africa Centrale (GABAC). This approach will enable the document to benefit from the enormous reservoir of data to which each regional body is privy, and the front-line role they play in ensuring that AML/CFT policies, strategies and measures are evenly rolled-out across their respective sub-regions. In addition to the consultation with the FATF-styled regional bodies in Africa, a review/validation workshop will be held, to which participants from the FATF-Styled regional bodies in Africa, the National FIUs, the National Economic and Financial Crimes Agencies, and the Counter Terrorism Executive Directorate of the UN Security Council, amongst others, would be invited. The Bank's website will also be used to disseminate the Strategic Framework and Action Plan for public input and comments. This is consistent with the commitment to take the discourse on ML, FT and IFFs outside the elite corridors.

VII. CONCLUSION AND RECOMMENDATION

7.1 This document revises the AML/CFT Strategy adopted by the Bank in 2007 and presents an action plan for implementing. Despite various developments that have occurred since the adoption of the 2007 Strategy, and various interventions by intergovernmental organizations and multilateral development institutions, the AML/CFT needs of RMCs remain enormous and urgent.

7.2 The Strategic Framework and Action Plan, provides a strategic framework for the operationalization of the commitments made by management in the Bank Group's Anti-Illicit Financial Flows Policy, and positions the Bank to restructure and enhance its internal capacity to pre-empt and respond to ML, FT and IFFs. It recognizes the threat that IFFs continue to present to development in RMCs, and proposes structured and measurable responses, including structuring the interventions of the Bank to develop effective responses to IFFs in Africa.

7.3 The IFFs Strategic Framework and Action Plan is recommended to the Boards of Directors for consideration and approval to enable Management implement the measures proposed therein.

APPENDIX 1

INDICATIVE RESULTS MEASUREMENT FRAMEWORK

Table Appendix 1.1: Indicative Results Measurement Framework								
Objectives	Expected Results	Reach	Performance Indicators (Sources & Methods)	Indicative targets				Assumptions/Risks
				Baseline September 2014	August 2016	August 2018	November 2019	
Pillar 1: Strengthening the Capacity of RMCs and RECs to Fight IFFs								
<p>Establish link with all African FIUs</p> <p>Analyze and assess ML/FT and IFF risk in selected RMCs in consultation with FIUs.</p> <p>Provide AML/CFT implementation support to FSRBs</p> <p>Establish and update trends of ML, FT and IFFs through research</p> <p>Regularly update and circulate typologies of ML, FT and IFFs</p> <p>Raise the involvement of non-state actors, including civil society structures in IFFs work</p>	<p>Capacity of RMCs to collect, manage and analyze data on ML, FT and IFFs is enhanced</p> <p>Major ML and IFFs risk identified</p> <p>Most recurrent ML and IFF networks and routes mapped</p> <p>Periodical Policy Briefs</p> <p>Discourse on ML/FT and IFF enriched with the experiences of RMCs</p> <p>Improved quality of civil society initiatives against ML/FT/IFFs and their major drivers</p>	<p>RMCs, African FSRBs, reporting and accountable institutions, investigative agencies, civil society organizations, organized business structures</p>	Accessible, searchable database on ML, FT and other IFFs				<p>Sufficient funds allocated to the proposed EFIT</p> <p>Adequate staff to work with RMCs</p> <p>Political will and commitment of RMCs to address key ML and other IFFs issues.</p>	
			Number of links established with FIUs or other central AML agency	-	15	21		30
			Number of risk assessments concluded with the Bank's assistance	0	15	21		30
			Number of countries declared compliant with FATF Recommendations					
			Networks and routes of ML, FT and IFFs mapped	0	12	18		24
			Bank publications on ML, FT and other IFFs	1	3	5		6
			Learning events provided to civil society, the media and other non-state actors in IFFs	0	3	5		7
<p>Field research to establish and update trends of ML, FT and IFFs</p> <p>Identify significant directions and repositories of IFFs</p>	<p>Trends and direction of ML, FT and IFFs periodically updated</p> <p>Progress on achieving corporate</p>	<p>RMCs (tax authorities, FIUs) FATF, FSRBs</p>	Membership of FSRBs	40	45	50	54	<p>Commitment of RMCs</p> <p>Accessibility of information on structure of and income distribution in</p>
			Membership of Egmont Group of FIUs	21	30	40	50	
			Number of RMCs with laws against transfer mispricing	12	18	24	30	

Support initiatives to enhance corporate transparency (e.g. by introducing beneficial ownership requirements in AML/CFT laws) Align Strategy with equivalent strategies of FSRBs and Egmont Group Encourage legislation against transfer mispricing	transparency charted Initiatives to achieve tax justice aligned with strategies against ML and IFFs More RMCs legislate against transfer mispricing		Number of RMCs accessing information on beneficial ownership from CDD derived data	0	12	24	30	global and other MNCs Availability of collaborative research partners
			Increase in the number of automatic disclosure of tax relevant information agreements between African countries and foreign destinations of IFFs*	6	10	15	20	

Pillar 2: Strengthening Internal Framework for ML, FT and other IFFs Safeguards

Train Bank staff Prepare check-list of key red flags for use in IDD Identify products, services, assets and opportunities abused for IFFs Mainstream IFF practices into all transactions to which the Bank is a party	Generic risks of ML and IFFs identified Robust regime of pre-emptive and preventive practices and measures to minimize the abuse of the Bank for ML/FT or IFF.	Bank operational and investigative staff	Training manual developed/updated	0	1	1	1	Competent staff to deliver appropriate training, Commitment of collaborative departments' and staff Sufficient funds allocated to the proposed IEFIT Adequate, competent staff to conduct the research, Availability of pertinent information in RMCs
			Capacity Building/Training Programs on IFFs	0	2	6	8	
			Learning events on proactive responses to emerging trends/threats	0	12	24	30	
			Fact sheets circulated to Bank staff	0	5	10	15	

* As determined from OECD database

APPENDIX 2

ACTION PLAN FOR IMPLEMENTING THE BANK GROUP IFFs STRATEGIC FRAMEWORK AND ACTION PLAN

APPENDIX 2.1

PROPOSED STRUCTURE AND FINANCING FOR IMPLEMENTING THE STRATEGIC FRAMEWORK AND ACTION PLAN

1.1 The Bank's Capacity Development Strategy identifies human capacity, institutional capacity and organizational capacity as the three dimensions of capacity development needs. As proposed in this strategy, the first would be addressed through training, while the second entails rules, regulatory framework, policies and laws and would be addressed through financial and technical support to RMCs to put in place appropriate regulatory and legal frameworks. The third dimension, organizational capacity, which involves organizational arrangements such as structure and processes, is very crucial for a successful implementation of the proposed Strategic Framework and Action Plan. With increasing complexities of IFFs issues and the urgent need to progressively mainstream IFFs issues and practices into the Bank's operations, as well as to scale-up the Bank's support to RMCs in these areas, there is a pressing need for the Bank to strengthen the institutional arrangement for addressing IFFs issues not only in its RMCs but also internally within the Bank. With regards to internal arrangement, the Bank could be guided by what obtains in the World Bank and IMF.

1.2 The current practice in the Asian Development Bank (AsDB) is similar to the Bank's. Their Anti-Money Laundering activities are undertaken within the context of its Governance and Public Sector Management operations. In addition some AML/CFT activities are undertaken in the regional departments, the Operations Services and Financial Management Department, the Controller's Department, the Office of Anticorruption and Integrity, the Office of the General Counsel, and the Treasury Department. On the other hand, the World Bank's AML/CFT work is conducted by the Financial Market Integrity Group (FMIG). Although not entirely autonomous, the FMIG operates like a distinct entity across the World Bank Group, and with external stakeholders. It interacts with various departments of the Bank, particularly departments tasked with work on anti-corruption, financial integrity, stolen asset recovery and criminal justice reform. The FMIG accomplishes these activities with a team which comprises financial sector specialists, supervisors, lawyers, prosecutors, and asset disclosure specialists, amongst others. It is also the primary unit which provides other staff of the World Bank with tools to improve transparency in order to deter, expose and detect ML. At the European Bank for Reconstruction and Development (EBRD) all integrity issues relating to anti-corruption, AML/CFT and staff issues, internal and external, are handled by the Office of the Chief Compliant Officer (OCCO), which also does investigation and sanctions for all integrity issues. Specifically, the Transaction Advice team within the OCCO is responsible for issues of ex-ante integrity due diligence, anti-Money Laundering (AML) and countering the financing of terrorism (CFT).

1.3 For the IMF, its Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) program focuses on (a) AML/CFT assessments – as part of the Reports on the Observance of Standards and Codes (ROSC) program and of the Financial Sector Assessment Program (FSAP) and (b) capacity development activities. In addition, since 2011, Money Laundering, Terrorism Financing and related predicate crimes issues (referred to as financial integrity issues) are flagged in the context of surveillance. Moreover, some recent Fund-supported programs have also incorporated financial integrity issues. The financing of IMF’s AML/CFT technical assistance (TA) program is done through a dedicated Trust Fund (The AML/CFT Topical Trust Fund) which was established in 2009. The AML/CFT Topical Trust Fund (TTF) is a multi-donor trust fund is designed to provide the Fund with a pool of resources to finance virtually all of its AML/CFT Technical Assistance. The TTF is supported by twelve donors (Canada, France, Japan, Korea, Kuwait, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland, and the United Kingdom) who have pledged \$25,274,610 for five years of operations through FY2014.

1.4 As noted earlier on, the implementation of AML/anti-IFFs activities are not the same across all MDBs. However, the general tendency is that most MDBs are moving towards consolidating such roles, particularly the external activities. The general trend is to consolidate the external IFFs activities under a single organizational unit, while most of the internal IFFs issues are consolidated and handled by a compliance office/department. In particular, a clear distinction is made between the external role – supporting RMCs and REC’s in implementing IFF policies, advocating in the global arena, providing advisory services; and the internal function, ensuring that the Bank resources are not directly or indirectly exposed to IFFs. This approach is advocated because the set of skills and expertise required is relatively different for the two functions.

1.5 From the above, it appears that the Bank Group significantly lags behind with no clear institutional framework for its IFFs engagements. With increasing complexities of IFFs issues and the urgent need to progressively mainstream IFFs issues and practices into the Bank’s operations and policy dialogues, as well as to scale-up the Bank’s support to RMCs in these areas, as well as the need to enhance its internal capacity to address IFFs risks, there is a pressing need for the Bank to strengthen the institutional arrangement for addressing IFFs issues not only in its RMCs but also internally within the Bank. With regards to internal arrangement, the Bank could be guided by what obtains in the World Bank, IMF and EBRD.

1.6 The tasks set out for the Bank under the proposed strategic framework as enunciated in section 3 are onerous and broad ranging, and call for a set of skills that is not currently located in a single department in the Bank. The current approach of having a focal person in OSGE to coordinate IFFs activities in the Bank will not suffice given the magnitude of responsibilities expected of the Bank under the proposed Strategic Framework and Action Plan. The appointment of an IFFs Officer at PL2 or PL3 level would represent an improvement of the current situation in that the position and function will become official and the officer will be solely dedicated to IFFs related duties instead of the current situation where the focal person in OSGE is assigned other functions with IFFs activities being a mere ancillary. However, this will

still fall short of what is required to implement the Strategic Framework and Action Plan given the magnitude of responsibilities expected of the Bank under the Strategic Framework and Action Plan.

1.7 Consequently, for an effective implementation of its IFFs programs, Management is proposing the creation of a IFFs Operations and Advisory Team (or Group) (Economic and Financial Integrity Team or Group), as part of the Governance and Public Financial Management Coordination Office, under the Chief Economist and Vice President, for Economic Governance and Knowledge Management. The functions of the proposed Economic and Financial Integrity Team (EFIT) would be mostly focused on external IFFs activities and coordination. It would be responsible for handling all IFFs operations, dialogue with external stakeholders/partners and the coordination of all IFFs activities within the Bank. In addition, it is being proposed that all IFFs Compliance activities be consolidated under a IFFs Compliance Team within the IACD. The IFFs Compliance Team would be responsible for issues of ex-ante integrity due diligence, and anti-IFFs.

The Proposed Economic and Financial Integrity Team (EFIT)

1.8 The proposed Economic and Financial Integrity Team (EFIT), which will mostly focus on external activities and coordination, would be the main organizational unit responsible for the conduct/coordination of the Bank's IFFs work. It would lead collaboration and consultations with the external stakeholders including RMCs, FSRBs, FATF, the World Bank, IMF and Global Financial Integrity on IFFs issues. It would lead the preparation of IFFs related operations for the provision of financial and technical assistance to RMCs. The EFIT will also provide advisory services and training to RMCs in the areas of IFFs. It will oversee engagement on regional and global initiatives on IFFs. A draft terms of reference for the proposed office, and details on how its activities would be financed as well as details on its proposed structure, indicative work plan, costing and implementation responsibilities are provided in appendix 2. In carrying out its mandate, the proposed Economic and Financial Integrity Team will interact with and support other departments/organizational units of the Bank tasked with IFFs related work, and provide internal coordination for the activities of these departments/organization units in the area of IFFs.

1.9 In view of current resource constraints, the initial staff of the proposed office could be drawn from the existing staff complement of the Bank. The proposed EFIT could be established through internal redeployment of the relevant staff (with diverse skill mix, including financial sector specialists, governance experts, and lawyers), in a process in which the tasks envisaged are clearly laid out. The initial staffing of the office should consist of six (6) staff. (See Appendix 2.2 for details). This could be supplemented by the use of consultants where the skills required by the various tasks do not currently reside within the Bank.

1.10 With regards to financing of the Bank's IFFs projects, programs and technical assistance, it is proposed that a multi-donor Trust Fund for the Bank's IFFs activities, similar to the IMF's AML/CFT Topical Trust Fund, be established.¹⁴ In addition to donor contributions, the proposed IFFs Topical Trust Fund could also benefit from resources of the proposed Integrity Fund (IF) when established. The IF is meant to finance measures which contribute to the prevention, the detection, the investigation and sanctioning of Prohibited Practices, which support the repatriation of stolen assets and/or which alleviate

¹⁴ See Appendix 3, paragraph 2.3 for details

the financial drain from illicit outflows on RMCs. Resources from the IF will only be used to finance assistance to RMCs and not for staffing of the IFFs Unit and the Bank's activities. The objectives and areas and levels of intervention of the proposed multi-donor Fund are in line with those of the Strategic Framework and Action Plan for the Prevention of IFFs. Specifically, amongst others, the Fund would assist the Bank's RMCs in building and enhancing capacities to response to prohibitive practices and IFFs, which is one of the major thrust of the Strategic Framework.

The Proposed IFFs Compliance Team

1.11 The proposed IFFs Compliance Team, to be located within IACD, will mostly focus on IFFs compliance issues. It would be the main organizational unit responsible for managing and maintaining the Bank Group's obligations as it relates to the supervision and reporting of Money Laundering and other IFFs activities. It would be responsible for designing, evaluating, supporting, and influencing a culture of compliance throughout the Bank Group, as well as assisting in the management and execution of an efficient compliance monitoring program. It will be responsible for maintaining a robust approach to Integrity Due Diligence (IDD) on prospective Bank Group's clients and projects including (but is not limited to) risks and issues such as: ownership structure and the identity of ultimate beneficial owners; origins of a company and the source of wealth of key figures; business practices and associations with counterparties; presence of Politically Exposed Persons (PEPs); quality of AML and CFT controls; reliance on government-issued licenses and permits; and use of offshore jurisdictions.

IFFs Role of Relevant Bank Units

1.12 The establishment of the proposed Economic and Financial Integrity Team and the IFFs Compliance Team in IACD, notwithstanding, some of the existing organizational units, dealing with internal IFFs function, including GECL, FTRY and ORPF, will continue to play their role. For instance, ORPF will continue to undertake fiduciary risk assessment and procurement reforms which contribute to mitigating IFFs risks.

1.13 *Know-Your Customer.* With regard to the Bank Group's correspondent banks, FTRY will be responsible for KYC functions relating to correspondence banks and will undertake documentation and justification of payments and beneficiaries, screening of outgoing payments to ensure compliance with correspondent banks KYC/AML policies and investigating incoming payments to ensure compliance with the Bank operations. GECL will be responsible for leading the process of coordinating the Bank's responses to questions and enquiries from counterparties, rating agencies and other external parties on the Bank's IFFs practices and safeguards. It will also, in collaboration with FTRY, coordinate responses to requests in respect of KYC/AML by counterparties and correspondent banks. It will, in addition, be responsible for ensuring that relevant clauses on IFFs are included in loan/grant agreements. For KYC functions related to operations (lending/investment) particularly with regards to borrowers and investee companies in non-sovereign operations, IACD, OPSD, GCRO and GECL will harness the process under the existing Implementation Guidelines for Integrity Due Diligence for non-sovereign operations¹⁵ specifically, the provisions on Beneficiary Identification.

¹⁵ See Document ADB/BD/WP/2014/96/Rev.2/Add.1 • ADF/BD/WP/2014/64/Rev.2/Add.1

1.14 The Draft Terms of Reference for the proposed Economic and Financial Integrity Team is presented in appendix 2.2 below.

APPENDIX 2.2

DRAFT TERMS OF REFERENCE FOR THE PROPOSED ECONOMIC AND FINANCIAL INTEGRITY TEAM

I. INTRODUCTION

1.1 This Terms of Reference (ToR) sets out the activities and function of the proposed Economic and Financial Integrity Team (EFIT), which shall be situated in the Governance and Public Financial Management Coordination Office, in the Chief Economists, Knowledge Management and Governance Complex of the African Development Bank.

1.2 *Objectives:* The proposed Economic and Financial Integrity Team will lead the work of the Bank in IFFs. It will work with stakeholders within the Bank, and its RMC, as well as globally, by providing support to Bank departments working in this area, as well as providing financial, technical, and advisory assistance to stakeholders in the Bank's RMCs. In this regard, the objective is to contribute to the development of the Bank's internal capacity to participate in the implementation of comprehensive IFFs strategies in Africa, incorporate IFFs issues in the Bank's policy dialogue with RMCs, provided effective support to RMCs and their institutions through loan, grants and TA activities, and collaborate with other relevant organizations in these areas. Internally, the Economic and Financial Integrity Team will work with other relevant departments of the Bank to achieve these objectives. In particular, it will collaborate with the FTRY in its KYC work, with the proposed IFFs Compliance Team in its work as set out in paragraph 1.11 above, and with IACD in the area of anti-corruption which is IACD's preserve. It will also collaborate with other departments such as OFSD, GECL, OAGL, OPSM, ORPF, amongst others, in those areas of their responsibilities which touches on IFFs. It will also work with stakeholders in RMCs (including financial intelligence units, economic, financial crime agencies, anti-corruption agencies, law enforcement agencies, etc.) to enhance their capacity to prevent and combat Money Laundering, Financing of Terrorism, and other forms of Illicit Financial Flows, while collaborating globally with the Financial Action Task Force (FATF), the FATF-style regional bodies (FSRBs) in Africa, and the Egmont Group of Financial Intelligence Units.

1.3 *Responsibilities:* The Economic and Financial Integrity Team would be responsible for the conduct/coordination of the Bank's IFFs activities. It will lead the preparation of IFFs related operations for the provision of financial and technical assistance to RMCs. The EFIT will also provide advisory services and training to RMCs in the areas of IFFs. It will oversee engagement on regional and global

initiatives on IFFs. In carrying out its mandate, the EFIT will interact with and support other departments/organizational units of the Bank tasked with related work such as correspondence banking/know-your-customer procedures, payment processing processes, anti-corruption, audit and legal and judicial reforms and provide internal coordination for the activities of these departments/organization units in the area of IFFs.

2. PROPOSED ACTIVITIES OF THE ECONOMIC AND FINANCIAL INTEGRITY TEAM

2.1 The Economic and Financial Integrity Team will operate at institutional, country, regional and global level, and will lead and coordinate the Bank's work/activities in the areas of IFFs, in collaboration with the proposed IFFs Compliance Team, IACD and other relevant departments of the Bank.

2.2 *Details of Activities under Pillar 1:* Under Pillar 1 - Strengthening the Capacity of RMCs and RECs to Fight IFFs, the EFIT will:

- Provide technical and financial support to FSRBs, National FIU and Economic and Financial Crime Agencies to enhance their capacities.
- Provide technical and financial support to RMCs to strengthen their institutions and improve their AML/CFT framework and implement international AML/CFT standards
- Support and assist the establishment of effective and operational FSRBs in regions where they do not currently exist.
- Collaborate with EDRE in undertaking studies and research to establish and update trends of ML, FT and IFFs in RMCs and in the continent as a whole
- Undertake/coordinate, and update typologies studies of ML, FT and IFFs in RMCs and in the continent and ensure the wide circulation of same so as to increase awareness of the main ML/FT/IFFs methods being used
- Maintain an online repository of information on ML, FT and other IFFs
- Prepare Training Manual on IFFs for use by Bank staff
- Organize Training workshops and Capacity Building Programs for Bank staff
- Provide financial and technical support to RMCs FIUs for national risk assessments
- Represent the Bank in FATF and African FSRB periodical meetings, including the plenaries and workshops and engage in international discussion on IFFs
- Provide support to civil society organizations active in IFFs work
- Support development of African institutions studying IFFs.
- Prepare and circulate advice to RMCs through Policy Briefs
- Undertake periodic evaluation of effectiveness of international co-operation in ML, CFT and IFFs cases
- Update data on trends of IFFs through collaborative field research with partner organizations
- Periodically review effectiveness of measures to stem IFFs, by reference to volume shifts
- Provide assistance for development and implementation of national AML/CFT policies and strategies.

- Support establishment of regional networks on recovery of stolen assets and strengthen existing networks.
- Through the ALSF, provide support to RMCs to strengthen their legal expertise and negotiating capacity in recovery of stolen assets.
- Provide assistance to build capacity of tax authorities to tackle tax evasion.
- Promote citizens' awareness on anticorruption complaint mechanisms and the danger of ML and FT

2.3 Details of Activities under Pillar 2: Because RMCs and institutions that borrow or receive grant assistance from the Bank often do not have adequate capacity needed to prevent or detect ML/FT or corruption activities, it is necessary for the Bank to take measures to guide against the risk of having its funds used for purposes other than those intended. In pursuance of this, the unit will, under Pillar 2 - Strengthening Internal IFFs Safeguards and Knowledge Management, undertake the following activities:

- Collaborate with the proposed IFFs Compliance Team, IACD and EADI and other relevant departments in training Bank staff and preparing tool kit to assist Bank staff to recognize suspicious IFFs activities and to upgrade Bank staff capacity to conduct various due diligence exercises.
- Collaborate with the proposed IFFs Compliance Team and IACD, prepare/update guidelines, as required, for the conduct of due diligence exercises.
- Collaborate with proposed IFFs Compliance Team, IACD and EADI and other relevant departments preparing and updating database on clients and check-list of key red flags for use in Integrity Due Diligence (IDD)
- Coordinate the activities of the Bank departments in identifying products, services, assets and opportunities abused for ML, FT and IFFs
- Work with the proposed IFFs Compliance Team and operations departments (including OPSM) and other relevant departments of the Bank to ensure that IFF practices are mainstreamed into all transactions to which the Bank is a party.
- Work with the regional departments and other relevant departments of the Bank to ensure that IFF issues are incorporated into the Bank's policy dialogue with RMCs by mainstreaming these issues into all Bank Group future CSPs, RISPs and ESWs.
- Work with the proposed IFFs Compliance Team, IACD, FTRY and other relevant departments of the Bank to ensure that IFFs is incorporated into investigations.
- Collaborate with the proposed IFFs Compliance Team and other relevant departments of the Bank to ensure that post-transaction integrity risk reviews to monitor IFFs risks in on-going Bank supported operations are regularly undertaken.
- Collaborate with the proposed IFFs Compliance Team and IACD in updating and regularly reviewing the database on internationally recognized terrorists, sanctions and embargo lists
- Collaborate with the proposed IFFs Compliance Team, IACD, operations departments (including OPSM) and other relevant departments of the Bank in undertaking integrity due diligence exercise as part of appraisal process of all Bank supported operations
- Prepare and circulate advice to Bank staff through Fact Sheets

3. STAFFING OF THE ECONOMIC AND FINANCIAL INTEGRITY TEAM (EFIT)

3.1 Management proposes a level of staffing for the Proposed Economic and Financial Integrity Team that is consistent with on-going Management initiatives on strategic staffing of the Bank. Initial staff of the propose office would be drawn from the existing staff complement of the Bank, with a nucleus drawn from the departments with the closest link to most of the issues raised by IFFs. The relevant skill mix required by the office including financial sector specialists, governance experts, and lawyers), hence the relevant departments from which the internal deployment to the office may be made are OSGE, OFSD and GECL.

3.2 In view of current resource constraints, the initial staffing of the EFIT would consist of six (6) staff. This could be supplemented by the use of consultants as and when necessary. The proposed initial configuration of the staff of the office is as shown in table appendix 2.2.1 below.

TABLE APPENDIX 2.2.1: PROPOSED STAFFING OF THE UNIT/DIVISION AT INCEPTION	
Designation and Grade of Staff	Number of Staff
Head/Manager/Lead (PL.1/PL.2)	1
Chief Officer (PL.3)	1
Principal Officer (PL.4)	1
Senior Officer (PL.5)	2
Admin/Team Assistant (GS.5)	1
Total	6

APPENDIX 2.3: INDICATIVE WORK PLAN, RESOURCE ESTIMATES AND IMPLEMENTATION RESPONSIBILITIES

2.1 While table 1 provides the strategic orientation of the Bank Group's strategic framework and action plan for the prevention of IFFs, The Five Year Work Plan provides a programmatic perspective over a five year period as well as the required resources for implementation.

Table Appendix 2.3.1: Five Year Work Plan and Resource Estimates

Focus Area	Planned Activities	2016	2017	2018	2019	2020	Total
		Amounts in UA thousand					
PILLAR 1: Strengthening the Capacity of RMCs and RECs to Fight IFFs	Provide technical and financial support to FSRBs, National FIU and Economic and Financial Crime Agencies to enhance their capacities.	500.00	1,500.00	500.00	1,500.00	1,000.00	5,000.00
	Provide technical and financial support to RMCs to strengthen their institutions and improve their AML/CFT framework and implement international AML/CFT standards	500.00	1,500.00	1,000.00	1,500.00	500.00	5,000.00
	Support and assist the establishment of effective and operational FSRBs in regions where they do not currently exist.	1,000.00	-	1,000.00	-	-	2,000.00
	Field research to establish and update trends of ML, FT and other IFFs	-	60.00	-	60.00	-	120.00
	Maintain an online repository of information on ML, FT and other IFFs	40.00	40.00	40.00	40.00	40.00	200.00
	Provide financial and technical support to national risk assessments	500.00	500.00	-	500.00	500.00	2,000.00
	Participate in FSRB periodical meetings	80.00	80.00	80.00	80.00	80.00	400.00
	Provide support to civil society organizations active in AML, CFT and IFFs work	-	100.00	-	100.00	-	200.00
	Support development of African institutions studying ML and IFFs.	200.00	200.00	200.00	200.00	-	800.00
	Prepare and circulate advice through Policy Briefs	25.00	25.00	25.00	25.00	25.00	125.00
	Establish links with all African FIUs	-	-	-	-	-	-
	Evaluate effectiveness of international co-operation in ML, CFT and IFFs cases	-	-	80.00	-	-	80.00
	Update data on trends of IFFs through collaborative field research with partner organizations	-	100.00	-	200.00	-	300.00
	Engage in international debates on AML, CFT and IFFs	20.00	20.00	20.00	20.00	20.00	100.00
	Periodically review effectiveness of measures to stem IFFs, by reference to volume shifts	-	-	50.00	-	50.00	100.00
PILLAR 2: Strengthening Internal AML/CFT/IFFs Safeguards and Knowledge Management	Capacity Building for Bank staff and prepare tool kit to assist staff to recognize suspicious AML/CFT activities.	50.00	50.00	50.00	50.00	-	200.00
	Prepare and update database on clients and check-list of key red flags for use in IDD	5.00	5.00	5.00	5.00	5.00	25.00
	Identify products, services, assets and opportunities abused for ML, FT and IFFs	-	-	-	-	-	-
	Mainstream AML/CFT and IFF practices into transactions to which the Bank is a party.	30.00	30.00	-	30.00	-	90.00
	Mainstream AML/CFT and IFF issues into all Bank Group future CSPs, RISP and ESWs.	30.00	30.00	-	30.00	-	90.00
	Post-transaction integrity risk reviews to monitor AML/CFT risks in on-going Bank supported operations	30.00	75.00	-	75.00	-	180.00
	Update and regular review of database on internationally recognized terrorists, sanctions and embargo lists	-	-	-	-	-	-
	Integrity due diligence exercise as part of appraisal process of all Bank supported operations	20.00	20.00	20.00	20.00	20.00	100.00
	Establish and update trends of ML, FT and IFFs through research	-	40.00	-	50.00	-	90.00
	Update and circulate typologies of ML, FT and IFFs	-	30.00	-	30.00	-	60.00
	Prepare and circulate advice through Fact Sheets	-	-	-	-	-	-
	Review KYC procedures	12.00	-	-	-	-	12.00
	Acquire IT tools for filtering suspicious payments, and customer data	250.00	-	-	-	-	250.00
Total Program Implementation Cost	3,292.00	4,405.00	3,070.00	4,515.00	2,240.00	17,522.00	

Table Appendix 2.3.2: IFFs Pillar-related implementation responsibilities

Focus Area	Planned Activities	Responsible Departments
PILLAR 1: Strengthening the Capacity of RMCs and RECs to Fight IFFs	Provide technical and financial support to FSRBs, National FIU and Economic and Financial Crime Agencies to enhance their capacities.	Proposed EFIT in collaboration with Regional Departments and Field Offices
	Provide technical and financial support to RMCs to strengthen their institutions and improve their AML/CFT framework and implement international AML/CFT standards	Proposed EFIT in collaboration with Regional Departments and Field Offices
	Support and assist the establishment of effective and operational FSRBs in regions where they do not currently exist.	Proposed EFIT in collaboration with Regional Departments and Field Offices
	Field research to establish and update trends of ML, FT and other IFFs	Proposed EFIT, EDRE, ESTA, Regional and Field Offices
	Update and circulate typologies of ML, FT and other IFFs Maintain an online repository of information on ML, FT and other IFFs	Proposed EFIT, EDRE, ESTA, in collaboration with Regional and Field Offices
	Provide financial and technical support to national risk assessments	Proposed EFIT
	Participate in FSRB periodical meetings	Proposed EFIT.
	Provide support to civil society organizations active in IFFs work	Proposed EFIT in collaboration with Regional Departments and Field Offices.
	Support development of African institutions studying ML and IFFs.	Proposed EFIT in collaboration with Regional Departments and Field Offices
	Prepare and circulate advice through Policy Briefs	Proposed EFIT in collaboration with EDRE and ESTA.
	Establish links with all African FIUs	Proposed EFIT in collaboration with Proposed IFFs Compliance Team.
	Evaluate effectiveness of international co-operation in ML, CFT and IFFs cases	Proposed EFIT in collaboration with Proposed IFFs Compliance Team, OFSD
	Update data on trends of IFFs through collaborative field research with partner organizations	Proposed EFIT, EDRE, ESTA, in collaboration with Regional Departments and Field Offices
	Engage in international debates on IFFs	Proposed EFIT, EDRE, ESTA, IACD
	Periodically review effectiveness of measures to stem IFFs, by reference to volume shifts.	Proposed EFIT, EDRE, ESTA, and Proposed IFFs Compliance Office.
PILLAR 2: Strengthening Internal AML/CFT/IFFs Safeguards and Knowledge Management	Train Bank staff and prepare tool kit to assist staff to recognize suspicious IFFS activities.	Proposed EFIT, Proposed IFFs Compliance Team, and EADI.
	Prepare and update database on clients and check-list of key red flags for use in IDD	Proposed IFFs Compliance Team in collaboration with Proposed EFIT and FTRY.
	Identify products, services, assets and opportunities abused for ML, FT and IFFs	Proposed EFIT, OFSD, Proposed IFFs Compliance Team.
	Mainstream IFF practices into transactions to which the Bank is a party.	Proposed EFIT, GECL, FTRY, OFSD in collaboration with Regional Departments and Field Offices
	Mainstream IFF issues into all Bank Group future CSPs, RISPs and ESWs.	Proposed EFIT and other operations departments, Regional Departments and Field Offices
	Mainstreaming IFFs into investigations	Proposed IFFs Compliance Team in collaboration with Proposed EFIT, and FTRY.
	Post-transaction integrity risk reviews to monitor IFFs risks in on-going Bank supported operations	Proposed IFFs Compliance Team.
	Update and regular review of database on internationally recognized terrorists, sanctions and embargo lists	Proposed IFFs Compliance Team.
	Integrity due diligence exercise as part of appraisal process of all Bank supported operations.	Proposed IFFs Compliance Team.
	Establish and update trends of ML, FT and IFFs through research	EDRE, Proposed EFIT, in collaboration with Regional Departments and Field Offices
	Update and circulate typologies of ML, FT and IFFs Prepare and circulate advice through Fact Sheets	Proposed EFIT, EDRE, ESTA, OSGE

Table Appendix 2.3.3: Capacity Building Priorities and Possible Collaborative Partners		
Required Capacity	Relevant Bank's Departments	Possible collaborative partners
Enhancing capacity and building expertise to investigate Money Laundering cases;	Proposed IFFs Compliance Team, Proposed EFIT and EADI.	Commonwealth Secretariat (COMSEC), EFCC (Nigeria); NDLEA (Nigeria); GIABA; UNODC, KPMG, Drug Enforcement Administration (USA); FINCEN (USA); Traitement du renseignement et action contre les circuits financiers clandestins (TRACFIN) (France)
Developing and improving skills and technical capacity to prosecute Money Laundering;	Proposed IFFs Compliance Team, Proposed EFIT and EADI.	Commonwealth Secretariat (COMSEC), National Prosecuting Authority (South Africa) EFCC (Nigeria); NDLEA (Nigeria); GIABA
Improving the capacity of judges to appreciate AML/CFT regimes and thereby improve adjudication process;	Proposed EFIT, GECL and EADI.	Commonwealth Secretariat (COMSEC), GIABA; National Judicial Institute (Nigeria)
Enhancing capacity and building expertise in asset recovery and interim asset management	Proposed EFIT, GECL and EADI	COMSEC, AFU (NPA – SA) GIABA; World Bank; UNODC, Stolen Asset Recovery Initiative - StAR (World Bank and UNODC), Asset Recovery Inter Agency Network for Eastern Africa- (ARIN-EA) National FIUs, GIABA, ESAAMLG, MENA-FATF, ALSF
Building capacity to conduct valid and reliable risk assessments;	Synthesis and analysis of data to map IFFs in Africa- Proposed EFIT, EDRE, ESTA, ORTS and EADI	IMF, FATF World Bank; GIABA
Building capacity to develop national AML/CFT policies, based on the identified risks	Research and analysis capacity – Proposed EFIT and EDRE.	GIABA, ESAAMLG, GABAC
Providing modern equipment to enable FIUs to work effectively	Proposed EFIT in collaboration with Regional Departments and Field Offices.	GIABA, ESAAMLG, GABAC
Training the staff of reporting institutions to identify suspicious financial transactions;	Proposed EFIT, Proposed IFFs Compliance Team and EADI.	GIABA, ESAAMLG, GABAC, Egmont Group
Facilitate the collection of official statistics	Proposed EFIT, ESTA.	GIABA, ESAAMLG, GABAC, FIUs
Provision of equipment for tracking and reporting cross-border movement of cash, to feed an effective international information network	Proposed EFIT in collaboration with Regional Departments and Field Offices).	GIABA, ESAAMLG, GABAC
Improving public awareness on Money Laundering/IFFs and their impacts.	Public media; collaboration with NGOs specializing in combating IFFs; web-based communication; public workshops – CERD, Proposed EFIT, IACD.	FIUs; Central Banks, Inter-Ministerial Committees on AML/CFT; GIABA, ESAAMLG, GABAC
Training on the new Methodology;	Proposed EFIT and Proposed IFFs Compliance Team.	GIABA, ESAAMLG, GABAC
Training on asset forfeiture	Proposed EFIT, IACD, EADI	COMSEC, UNODC, Basle Institute on Governance (ICAR)
Assistance with implementing targeted financial sanctions related to financing of terrorism as required by UNSCRs 1267, 1373 and successor resolutions;	Proposed EFIT, Proposed IFFs Compliance Team, and GECL.	UNCTED, GIABA, ESAAMLG, GABAC, FIUs
Training of FIUs on analyzing Suspicious Transaction Reports relating to financing of terrorism,	Proposed EFIT, EADI.	UNCTED, Egmont Group, GIABA, ESAAMLG, GABAC
Case analysis training for FIU analysts;	Proposed EFIT, Proposed IFFs Compliance Team, GECL, and EADI.	Austrac, Egmont Group, FATF, GIABA, ESAAMLG, GABAC
Enactment and/or amendment of legislation to meet the revised FATF standards, in particular to comply with Recommendation 1 on assessing risks and applying a risk based approach and Recommendation 7 on Targeted financial sanctions related to proliferation	GECL, Proposed EFIT, and Proposed IFFs Compliance Team.	COMSEC (Model legislation on AML/CFT for the Common Law Jurisdictions), UNCTED, GIABA, ESAAMLG, GABAC, FIUs

APPENDIX 3

EXPERIENCE OF DEVELOPMENT PARTNERS

A brief overview of the experience of the Bank's peers will assist in determining areas where intervention is likely to make significant impact, and guide the Bank on optimal methods.

3.1 World Bank

3.1.1 The World Bank sometimes separately, but often jointly with the IMF, has undertaken substantial AML/CFT initiatives. Much of the World Bank's operational AML/CFT activities are focused on the provision of technical assistance to support the strengthening of legislative frameworks in its client countries, national risk assessment and preparation of national AML/CFT strategies. Specifically, the World Bank provides technical assistance to its client countries: (i) through workshops, mentorships, and advisory services; (ii) by engaging client countries and other relevant international organizations to influence policy changes at national and global levels; and (iii) by undertaking assessments of countries' AML and CFT regimes to diagnose effectiveness and areas of potential risks. None-operational AML/CFT activities of the World Bank include outreach work and publications; and participation at meetings of the FAFT, the FSRBs, the OECD, Egmont Group and at the conference of state parties to the UNCAC.

3.1.2 The World Bank's work in these areas is conducted by the Financial Market Integrity Group (FMIG). Although not entirely autonomous, the FMIG operates like a distinct entity across the World Bank Group, and with external stakeholders. It interacts with various departments of the Bank, particularly departments tasked with work on anti-corruption, financial integrity, stolen asset recovery and criminal justice reform. The FMIG accomplishes these activities with a team which comprises financial sector specialists, supervisors, lawyers, prosecutors, and asset disclosure specialists, amongst others. It is also the primary unit which provides other staff of the World Bank with tools to improve transparency in order to deter, expose and detect ML.

3.2 International Monetary Fund

3.2.1 In its AML/CFT activities, which are mainly in the form of assessment of compliance with the FATF standards and technical assistance, the IMF relies on close cooperation with the FATF and the World Bank. AML/CFT assessments are an important part of the IMF's Financial Sector Assessment Programs (FSAP) and Reports on the Observance of Standards and Codes (ROSC). FSAP policy requires that FSAPs incorporate a full AML/CFT assessment and the IMF's AML/CFT program now encompasses assessments under the ROSC program of countries' compliance with the AML/CFT standards established by FATF. The IMF's AML/CFT technical assistance aims to improve AML/CFT regimes worldwide and to provide concrete support to the IMF's membership. This assistance is delivered through timely and high-level programs customized to fit the specific needs and priorities of IMF member countries and their respective institutions.

3.2.2 Areas of IMF's AML/CFT technical assistance include: Diagnostics (needs assessments), National Strategies and Coordination; Risk Assessments; Awareness Raising; advice and commenting on legislative proposals; drafting and updating financial and non-financial sector AML/CFT regulations, guidelines, and guidance notes; legal and operational assistance in the formation and development of FIUs and in the

training of FIU staff; assistance in enhancing supervisory oversight of financial and nonfinancial reporting institutions for AML/CFT; assistance in reviewing and enhancing laws and mechanisms for international cooperation; drafting memoranda of understanding (including for supervisory cooperation) and mutual legal assistance and extradition treaties; and reviewing and advising on the effectiveness and efficiency of AML/CFT national systems to assist governments in improving their resource allocation or in refining their AML/CFT policies.

3.2.3 Since 2009, most of the AML/CFT technical assistance of the IMF is financed through a dedicated Trust Fund (The AML/CFT Topical Trust Fund) which was established in 2009. The AML/CFT TTF is a multi-donor trust fund that provides the IMF with the resources to finance its AML/CFT TA. The AML/CFT Topical Trust Fund is supported by twelve donors who have pledged US\$25.275 million for five years operation through FY2014. At end of the first phase in 2014, and in light of the success of the program and of continuing high demand for capacity development in this area, a new five-year phase of the TTF started in May 2014 for a new five year period. Donors (France, Japan, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland and the United Kingdom) have together pledged more than \$20 million over the next five years to support this new Phase. The TTF complements existing accounts that finance the IMF's AML/CFT capacity development activities in IMF member countries.

3.3 Asian Development Bank (AsDB)

3.3.1 The AsDB adopted its AML/CFT policy titled "Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism" in 2003. The Policy has four key elements: (i) assisting its developing member countries (DMCs) to establish and implement effective legal and institutional systems to combat money-laundering and the financing of terrorism; (ii) increasing collaboration with other international and donor organizations; (iii) strengthening internal controls; and (iv) enhancing AsDB staff capacity.

3.3.2 The Asian Development Bank (AsDB) Anti-Money Laundering activities are undertaken within the context of its Governance and Public Sector Management operations. In addition some AML/CFT activities are undertaken in the regional departments, the Operations Services and Financial Management Department, the Controller's Department, the Office of Anticorruption and Integrity (OAI), the Office of the General Counsel, and the Treasury Department. Recently however, there has been a tendency towards consolidating these functions, and the OAI is now more focused on AML due diligence and reaching out to institutions on AML capacity building.

3.3.3 The AsDB's AML/CFT work is predominantly of a capacity building nature. In assisting its DMCs in developing and strengthening their AML/CFT regimes, the key activities are policy dialogues, and assistance for the development of financial-sector and governance-related projects and TA (including regional TAs). The dialogues are useful vehicles for the incorporation of AML/CFT-related components into reform programs and in devising and implementing AML/CFT policies in the DMCs. It also delivers public awareness programs and supports mutual aid mechanisms to share information and legal assistance. Also, within the AsDB, there is a focus on strengthening and implementing internal control procedures, and enhancing staff capacity through developing knowledge-based products.

3.4 European Bank for Reconstruction and Development (EBRD):

3.4.1 At the EBRD, all integrity issues relating to anti-corruption, AML/CFT and staff issues are handled by the Office of the Chief Compliant Officer (OCCO), which also does investigation and sanctions for all integrity issues. The OCCO is organized along four principle lines as follows: Ethics and Policy, Investigations, Transaction Advice, and Project Complaint Mechanism.

3.4.2 The Transaction Advice team within the OCCO is responsible for issues of ex-ante integrity due diligence, anti-Money Laundering (AML) and countering the financing of terrorism (CFT). Issues of confidentiality, conflicts of interest, corporate governance and ethics are addressed by the Ethics and Policy team. The Investigations team is responsible for investigating allegations of fraud or corruption in the Bank's projects and allegations of misconduct by Bank staff. The Project Complaint Mechanism (PCM) is the Bank's accountability mechanism for the assessment and review of complaints about Bank-financed projects and is concerned with the EBRD's Environmental and Social Policy and certain aspects of the EBRD's Public Information Policy.

3.4.3 The EBRD's Credit function plays a key role in the project approval process and is specifically charged with reviewing and documenting client-related integrity concerns and referring any significant concerns to OCCO's Transaction Advice team. The Transaction Advice team provides independent expert advice to management as to whether the potential risk is acceptable to the Bank.

3.5 UNODC

3.5.1 The United Nations Office on Drugs and Crime plays a prominent role in AML/CFT initiatives, in addition to the work that it has done over the years on transnational organized crime. Its capacity building work includes training, facilitating conferences, disseminating model legislation and knowledge management. One of its web-based publications is the International Money Laundering Information Network (IMoLIN), which is an internet-based network designed to assist governments, organizations and individuals in AML and FT. IMoLIN includes a database on legislation and regulations being applied across the world, an electronic library, and a calendar of events in the AML/CFT fields. The Strategy envisages a knowledge generation and management capacity that would be complementary to IMoLIN, in consultation with the UNODC.

3.6 Implications of Development Partners' Experience for the Bank Group

3.6.1 From the foregoing, it is clear that implementation of AML/anti-IFFs activities are not the same across all MDBs. However, the general tendency is that most MDBs are moving towards consolidating such roles, instead of spreading the roles across the institution. The above review of the experience of other Development Partners' experience also suggests some specific conclusions and comparisons with current Bank Group practices, especially with regards to institutional framework for the implementation of IFFs activities. They have dedicated units responsible for their respective IFFs engagements. They also have detailed procedures to guide all aspects of interventions in this area.

3.6.2 For instance, the World Bank's AML/CFT work is conducted/coordinated by the Financial Market Integrity Group (FMIG) which operates like a distinct entity across the World Bank Group. The FMIG accomplishes its activities with a team which comprises financial sector specialists, supervisors, lawyers, prosecutors, and asset disclosure specialists, amongst others. At the EBRD, all integrity issues relating to

anti-corruption, AML/CFT and staff issues are handled by the Office of the Chief Compliant Officer (OCCO), which also does investigation and sanctions for all integrity issues. Specifically, the Transaction Advice team within the OCCO is responsible for issues of ex-ante integrity due diligence, anti-Money Laundering (AML) and countering the financing of terrorism (CFT). On its part, the IMF finances its AML/CFT technical assistance (TA) program through a dedicated multi-donor Trust Fund (The AML/CFT Topical Trust Fund) designed to provide the Fund with a pool of resources to finance virtually all of its AML/CFT Technical Assistance.

3.6.3 The Bank Group appears to significantly lag behind with no clear institutional framework for its IFFs engagements. With increasing complexities of IFFs issues and the urgent need to progressively mainstream IFFs issues and practices into the Bank's operations and policy dialogues, as well as to scale-up the Bank's support to RMCs in these areas, as well as the need to enhance its internal capacity to address IFFs risks, there is a pressing need for the Bank to strengthen the institutional arrangement for addressing IFFs issues not only in its RMCs but also internally within the Bank. With regards to internal arrangement, the Bank could be guided by what obtains in the World Bank, IMF and EBRD.