

TC Document

I. Basic Information for TC

▪ Country/Region:	REGIONAL
▪ TC Name:	Strengthening the Integrity of Financial Systems: Improving the Capacity to Prevent Money Laundering and Terrorist Financing IV
▪ TC Number:	RG-T3863
▪ Team Leader/Members:	De Michele, Roberto (IFD/ICS) Team Leader; De Simone, Francesco (IFD/ICS) Alternate Team Leader; Aguilar Blandon, Maria Alejandra (IFD/ICS); Alvarez Bollea, Maria Cecilia (IFD/ICS); Centeno Lappas, Monica Clara Angelica (LEG/SGO); Gamba, Jacopo (IFD/ICS); Mahfouz, Giovanna L. (IFD/ICS)
▪ Taxonomy:	Client Support
▪ Operation Supported by the TC:	N/A.
▪ Date of TC Abstract authorization:	23 Feb 2021.
▪ Beneficiary:	Latin America and Caribbean borrowing member countries. Argentina, Uruguay and The Dominican Republic have expressed interest and presented the required letters.
▪ Executing Agency and contact name:	Inter-American Development Bank
▪ Donors providing funding:	OC Strategic Development Program for Institutions(INS); Transparency Trust Fund(AAF)
▪ IDB Funding Requested:	Transparency Trust Fund (AAF): US\$300,000.00 OC Strategic Development Program for Institutions (INS): US\$300,000.00 Total: US\$600,000.00
▪ Local counterpart funding, if any:	US\$0
▪ Disbursement period (which includes Execution period):	36 months
▪ Required start date:	July 2021
▪ Types of consultants:	Individual Consultancies and firms
▪ Prepared by Unit:	IFD/ICS-Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	IFD/ICS-Innovation in Citizen Services Division
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2020-2023:	Productivity and innovation; Economic integration; Institutional capacity and rule of law Productivity and innovation; Economic integration; Institutional capacity and rule of law.

II. Objectives and Justification of the TC

- 2.1 **Justification.** Money Laundering, which is estimated to amount between two and five per cent of global Gross Domestic Product (GDP), poses an enormous threat to nations as it fuels corruption and organized crime, facilitates terrorism, damages the integrity of financial systems and governmental institutions, and harms the social and economic development of countries. Combating money laundering is therefore critical and has become a major concern in the international community. The Basel Committee on Banking Supervision promotes the implementation of sound Anti-Money Laundering and Terrorist Financing (AML/CFT) policies and procedures as critical to

protect the safety and soundness of banks and the integrity of the international financial system.

- 2.2 The International Standards on AML/CFT (hereinafter “the Standards”) are issued by the Financial Action Task Force (“FATF”). This organization issued an updated version of these Standards in February 2012, which includes more specific and rigorous requirements, including a renewed focus on implementation of AML frameworks. The latest FATF methodology that evaluates countries’ compliance with these Standards is now assessing not only the technical compliance with the Recommendations but also the effectiveness to implement them.
- 2.3 FATF Assessment reports conducted in the past years indicate that several IDB borrower members still have weaknesses to implement and enforce Anti-Money Laundering and Terrorist Financing (AML/CFT) standards. The deficiencies detected in the AML/CFT systems has increased the assistance requests from countries to review and update their AML/CFT frameworks. The FATF conducts peer reviews of each member on an ongoing basis to assess levels of implementation of the FATF Recommendations. Currently, the FATF is conducting a fourth round of mutual evaluations for its members based on the FATF Recommendations and the effectiveness of AML/CFT systems. The scope of the evaluations involves two inter-related components for technical compliance and effectiveness. IDB borrowing member countries require support and technical assistance from the Bank to prepare for the process of mutual evaluation or to implement the recommendations included in the FATF Mutual Evaluation Final Report.
- 2.4 In the case of Uruguay, the country has recently completed its Mutual Evaluation Process, as part of the fourth round of the FATF. The *Grupo de Acción Financiera de Latinoamérica (GAFILAT)* final report identified a set of recommendations the country should address in order to strengthen its AML/CFT framework. As a consequence, SENACLAFT, the National Secretary for Anti-Money Laundering and Terrorism Financing of Uruguay, required assistance to the IDB to comply with GAFILAT’s recommendations and to detect areas of improvement that are a priority in this agenda.
- 2.5 The Dominican Republic, through the Bank Superintendency, required support from the IDB, with the objective of conducting a gap analysis and diagnosis of its AML/CFT framework in light of FATF Recommendations and main findings of the Mutual Evaluation Report of The Dominican Republic, approved by GAFILAT in 2018. One of the main goals of the country is to strengthen the Department of Prevention of Money Laundering and Terrorism Financing as well as strengthening the sanction system in charge of the Bank Superintendency. Additionally, this demand is in line with the Country Strategy for the Dominican Republic, specifically the priority iii) (*improve the management of public finances, institutional strengthening, and transparency*).
- 2.6 Finally, Argentina also expressed interest in this Technical Cooperation, particularly regarding the role of *Banco Nación* - the major public Bank in the country - in the prevention and combat of Money Laundering and Terrorism Financing. The demand in this case is in line with the support provided by the IDB in 2017 and 2018, when a money laundering risk assessment was conducted. *Banco Nación* is demanding support to review and track the progress in the implementation of the recommendations made by the IDB in 2018.
- 2.7 A [study](#) conducted by the Bank confirms that the AML/CFT financial regulation has an impact on banking inflows, acting as an indicator of how reliable a given country is to invest in. International donors and multilateral financial institutions, like the

International Monetary Fund (IMF) and the European Union (EU), are concerned about the negative impact of transboundary crime on the macro financial stability. In fact, the IMF, in its Article IV consultations, analyzes governance and corruption issues and provide clear policy advice to enhance good governance and address corruption vulnerabilities, including on tackling transnational corruption. In other terms, the readiness of countries to efficiently prevent money laundering and terrorism financing is becoming part of the conditionality to receive the support of multilaterals. For this reason, the AML/CFT component becomes even more crucial during the economic recovery as it increases the intake capacity related to international funding and helps preventing financial integrity flaws.

- 2.8 Also, this technical cooperation supports and assists IDB member countries in their efforts to implement regulatory, institutional and policy reforms in accordance with international standards, which in many cases are part of IDB's policy-based loans in Transparency and Integrity. This subheading should facilitate a clear understanding of the objectives and the problem the TC aims to address.
- 2.9 **Objective.** The objective of this TC is to support IDB member countries in their efforts to prevent money laundering and terrorist financing, by complying with the FATF Standards. The TC will combine a demand-driven approach, with a careful assessment of countries' AML/CFT needs. In this sense, requests for support from specific countries will be considered along with the results of the Mutual Evaluation Reports (MERs)¹ provided by the FATF, focusing on areas where there is a strategic need to improve the AML/CFT frameworks.
- 2.10 This proposal builds on the experience, results achieved, and lessons taken from its predecessors, ATN/AA-15291-RG (RG-T2670²) and ATN/AA-16796-RG (RG-T3218³). In the execution of these TCs, the Bank provided strategic technical assistance to conduct National Risk Assessments (NRAs), regulatory reforms and capacity building strengthening to its member countries. Thanks to the uninterrupted dialogue with the FATF and Organisation for Economic Co-operation and Development (OECD), the Bank has been instrumental to support LAC countries in complying with international AML/CFT standards. The Bank has become a leading regional provider of technical assistance adopting a demand-driven type of approach. This TC is therefore a response to the demand of the above-mentioned countries: Argentina, the Dominican Republic and Uruguay. Particularly, in the case of Argentina, the country, through the *Banco Nación* Argentina, expressed interest in reviewing its money laundering risk assessment conducted in 2018 with IDB technical cooperation (ATN/AA-15291-RG, RG-T2670). Hence, the present TC lies in continuity with the predecessor to bring coherence to the technical support provided to the requesting countries.
- 2.11 **Lessons learnt.** Timewise, the demand of this type of technical support is essentially FATF-driven. The timeline the FATF makes public identifies which country will undergo a mutual evaluation. The vast experience accumulated by the team at the Bank

¹ MERs are peer reviews of each member country on an ongoing basis to assess levels of implementation of the FATF Recommendations.

² Strengthening the Integrity of Financial systems: Improving the Capacity to Prevent Money Laundering and Terrorist Financing II. The TC has already been completely executed and closed.

³ Strengthening the Integrity of Financial systems: Improving the Capacity to Prevent Money Laundering and Terrorist Financing III. As of May 2021, the project has disbursed 62% and committed 55% of available funds.

through previous TCs indicates that, generally, countries turn to the Bank either when they need to prepare for an FATF Mutual Evaluation Process or to comply with the findings and recommendations of the FATF Mutual Evaluation Final Report, which is approved when the process is completed.

- 2.12 Unlike precedent TCs focused on this topic, this one is designed taking into account the impact of the pandemic COVID-19 crisis. The increase in COVID-19-related crimes, such as fraud, cybercrime, misdirection or exploitation of government funds or international financial assistance, is creating new sources of proceeds for illicit actors. Accordingly, the pandemic is also impacting government and private sectors' abilities to implement AML/CFT obligations from supervision, regulation and policy reform to suspicious transaction reporting and international cooperation. Due to the crisis and the impossibility to travel, FATF mutual evaluations have accumulated considerable delays to date. As a result, demands for technical support to the IDB also have accumulated and are now the main justification of this TC.
- 2.13 **Strategic Alignment.** The proposed TC is consistent with the Second Update to the IDB Institutional Strategy (2020-2023) (AB-3190-2) which indicates that the IDB Group will place special emphasis on promoting transparency and integrity as a way to strengthen institutional capacity and the rule of law. Under the IDB Institutional Strategy, transparency and integrity are defined as a key focus area. To achieve this objective, the IDB Institutional Strategy Update focuses on four areas of work: (i) support for the improvement of international standards and commitments on transparency, integrity, anti-corruption and governance; (ii) call for actors in favor of open government and transparency taking advantage of digital technology; (iii) greater integration of transparency and integrity in sectoral operations and improvement of the public-private approach; and (iv) strengthening internal coordination inside the IDB Group. Additionally, the TC is aligned with the focus area on productivity and innovation since it enables countries to adopt digital solutions to prevent, detect and sanction money laundering as one of the main hindering factors of productivity and efficiency and integrity of the financial sector.
- 2.14 The project is also aligned with the IDB's Transparency and Integrity Sector Framework (SFD) (GN-2981-2) as it supports countries in the strategic and timely compliance with international standards on transparency and integrity. Additionally, it is aligned in that it supports credibility and public confidence, which is a crucial factor in crisis management and economic recovery. Evidence suggests that the lack of institutional quality affects citizens' trust in government, productivity, and economic growth. By impacting the reliability of financial transactions, the project will have a beneficial effect on the private sector, thus being aligned also with the specific SFD's lines of action that refer to private sector integrity.
- 2.15 The proposed TC is closely aligned with the objectives and strategic framework of the Transparency Fund (AAF), as it strengthens the capacity of beneficiary countries to prevent and control corruption, by helping establish mechanisms and policies aimed at detecting and curbing the laundering of proceeds of illicit activities, including corruption. Specifically, the proposal is aligned with pillar I of the AAF which focuses on strengthening financial integrity systems, since the establishment of robust AML controls is a key component of a country's national anti-corruption system.
- 2.16 The project is in line with the priorities of the Strategic Development Program for Institutions (INS) (GN-2819-1), and particularly with the pillar on Institutional Capacity and the Rule of Law. In order to support countries to meet the demanding thresholds

set by international standards, such as FATF, OECD and EITI, the whole financial integrity system must be strengthened and therefore, the institutional capacities to prevent money laundering need to be improved in order to increase the governance of the financial sector.

III. Description of activities/components and budget

- 3.1 This Regional TC is organized under four components: (i) assessments and national strategies; (ii) capacity building and regulatory reforms; (iii) Information Technology (IT) capacity strengthening; and (iv) knowledge production and dissemination. Since each country has a different level of compliance with the Standards, interventions will follow a custom-made approach. Potential beneficiaries under all components are the Ministries of Economy and Finance, the Superintendence of Banks, local regulators and the Financial Intelligence Units (FIUs) of the recipient countries. The private sector will be mostly impacted by the activities under Component 1, as a key actor of the NRA and the National AML/CFT Strategies. Private sector will also benefit in the long run from activities of Component 2, since the Regulatory reforms will impact supervision and regulation to all regulated entities of the country. Also, the private sector and, when applicable, civil society, will be included in the activities for the dissemination of knowledge products (Component 4).
- 3.2 The structure of this technical cooperation and its four components is based on the experience and lessons learned from its predecessors (¶2.10). Furthermore, the FATF Standards include 40 different Recommendations that cover a wide range of areas (risk assessments and diagnosis, institutional strengthening, regulatory requirements, training and capacity building, among others) which are covered by the four components of the technical cooperation. This allows IDB member countries to require support from the Bank in the areas where they present deficiencies or challenges regarding their AML/CFT framework, without excluding any of the requirements of the FATF 40 Recommendations.
- 3.3 **Component 1: National Risk Assessments (NRA) and National Strategies (NS) (US\$200,000).** This component is based on two separate, but closely linked areas, aligned with FATF Recommendations 1 and 2. The first area focuses on conducting NRA to identify, evaluate, and understand the ML/FT risks for the country, and take action based on such analysis, including by supporting the institutional capacity of central authorities to assess risks, coordinate responses, and allocate resources to ensure that risks are mitigated effectively. This assessment will also help countries to apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. The second area supports translating the findings of the NRA into national AML/CFT policies, by supporting countries in designing effective policies and mechanisms to coordinate the AML actions of different agencies.
- 3.4 **Component 2: Capacity Building and Regulatory Reform (US\$200,000).** The main purpose of this component is to strengthen the legal and regulatory framework in compliance with the FATF Recommendations, providing assistance with the reform of laws, statutes and regulations. This component will respond to the following priorities: (i) setting the regulatory framework for countries to shift towards a stronger implementation of the RBA; (ii) updating laws, regulations and other measures, particularly for preventive purposes; (iii) addressing the implementation of customer due diligence and record-keeping policies; (iv) enhancing the transparency of legal

persons and legal arrangements by the establishment of beneficial ownership registries in accordance with FATF Recommendations 24 and 25.

- 3.5 **Component 3: IT Capacity Strengthening (US\$100,000).** This Component focuses exclusively on the evaluation and recommendation of information systems and process to support the supervisory capacity of the state in general and particularly of the agencies directly responsible for detecting, preventing and sanctioning ML/FT. The activities under this component will seek the improvement of data analysis and the process of collection and maintenance of extensive statistics to comply with the terms established by FATF Recommendations, particularly Recommendation 33.
- 3.6 **Component 4: Knowledge and Dissemination (US\$100,000).** This component will finance the production and dissemination of knowledge as an instrument to pinpoint the issue of money laundering (ML) into public policy discussions both at regional and national level. Specific activities will include: (i) workshops to exchange best practices among member countries; and (ii) papers and technical notes summarizing the results of the Bank's assistance on AML/CFT, indicating results and opportunities for improving and leveraging on the Bank's experience in key AML/CFT areas. This component aims at complementing the AML/CFT efforts through the sharing and strengthening of knowledge and cross-country learning in the region.
- 3.7 The total budget of the TC is US\$600,000, financed with resources from Ordinary Capital of Strategic Program of the Development Institutions (INS) and the Transparency Fund (AAF).

Indicative Budget (US\$)

Component	Description	IDB/INS	IDB/AAF	Total Funding
Component 1	National Risk Assessments (NRA) and National Strategies (NS)	200,000	0	200,000
Component 2	Capacity Building and Regulatory Reforms	0	200,000	200,000
Component 3	IT Capacity Strengthening	100,000	0	100,000
Component 4	Knowledge and Dissemination		100,000	100,000
Total		300,000	300,000	600,000

IV. Executing agency and execution structure

- 4.1 Given the regional nature of the activities to be financed hereunder, this TC will be executed by the Bank's Innovation in Citizens Services Division (IFD/ICS). The project team has received no objection letters from the Governments of Uruguay, Dominican Republic, and Argentina (Annex I) to participate in the project; and will request and obtain no objection letters from any additional participating country prior to the initiation of any activity in such country.
- 4.2 The project team is led by IFD/ICS who will supervise the TC components. Specifically, The Transparency and Integrity Cluster in ICS will be responsible for the execution of this TC since it has: (i) a proven track record in providing technical assistance in these areas, supported by extensive technical and operational expertise in the execution of projects of this kind in the region; and (ii) experience in selecting international experts in this field to successfully implement the envisaged activities. Additionally, as indicated in GN-2629-1, Appendix 10, the requesting entities do not have the necessary technical, operational or institutional capacity to duly and timely execute the

activities provided in the respective project. Also, considering the delicate role of providing technical assistance to institutions that are expected to meet international standards set elsewhere (i.e FATF and OECD), the role of the Bank as executing agency can grant the needed impartiality and independency in the AML/CFT process.

- 4.3 The activities to be executed under this operation have been included in the Procurement Plan (Annex IV) and will be carried out in accordance with the Bank's procurement policies and procedures methods: (a) Hiring of individual consultants, as established in the regulations AM-650; (b) Hiring of consulting firms for services of an intellectual nature according to GN-2765-4 and its associated operating guidelines (OP-1155-4) and (c) Hiring of logistics services and other services other than consulting, according to the policy GN-2303-28. The TC will adhere to the Procedures for the processing of technical cooperation operations and related matters (OP-619-4).
- 4.4 All technical support at country-level will require a letter of request or a no objection. Additionally, the Project Team will maintain the regional managers, country coordinators and country economists abreast of developments, in order to ensure that the project is aligned with other Bank and country efforts in related areas.

V. Major issues

- 5.1 The team has identified a potential lack of sustainability of the results as the main risk stemming from the implementation of this TC. In particular, the risk that legal and regulatory reforms designed with the support of the program may not be implemented, or recommendations on other AML/CFT areas are not being followed and applied as expected. To mitigate this risk, the project team will ensure that interventions are targeted to countries that have manifested with a clear statement of project goals and understanding of the enabling or constraining environment in which projects take place.

VI. Exceptions to Bank policy

- 6.1 This operation does not foresee any exceptions to Bank policy.

VII. Environmental and Social Strategy

- 7.1 Given the nature of the activities, this TC does not represent any environmental or social risk. In accordance with the Environment and Safeguards Compliance Policy (OP-703), the TC has been classified as Category "C". See Environmental Safeguards Filters ([SPF](#) and [SSF](#)).

Required Annexes:

[Request from the Client - RG-T3863](#)

[Results Matrix - RG-T3863](#)

[Terms of Reference - RG-T3863](#)

[Procurement Plan - RG-T3863](#)