

DOCUMENT OF THE INTER-AMERICAN DEVELOPMENT BANK
MULTILATERAL INVESTMENT FUND

REGIONAL

**SUPPORT FOR THE CREATION AND DEVELOPMENT OF
FINANCIAL INTELLIGENCE UNITS IN SOUTH AMERICA**

(TC-02-02-00-2-RG)/(ATN/MT-7884-RG)

**DONORS MEMORANDUM
APPROVED ON MAY 29, 2001**

This document was prepared by the project team consisting of: Rosina de Souza (LEG), Team Leader; Kea Wollrad (INT/RTC); Asako Yamamoto (MIF); Juan Carlos Perez Segnini (LEG/OPR); and Leyda Fajardo (LEG/OPR).

CONTENTS

EXECUTIVE SUMMARY

I.	ELIGIBILITY	1
II.	BACKGROUND	1
	A. The money-laundering problem in the region	1
	B. The Financial Intelligence Units	2
	C. Status of FIUs in South America	4
	D. Actions by the Bank in the control of money-laundering.....	5
	E. The executing agency	6
III.	OBJECTIVES AND DESCRIPTION OF THE PROGRAM.....	6
	A. Objective.....	6
	B. Description	6
	1. Grouping FIUs according to the degree of their development	6
	2. Areas of intervention	7
	3. Eligible interventions, by FIU group	8
	4. National strategic plans	10
IV.	COST AND FINANCING	11
V.	EXECUTION OF THE PROGRAM	12
	A. Execution of the program.....	12
	B. Disbursements	13
	C. Time frames.....	13
	D. Accounting and auditing	13
	E. Condition for implementing the program	14
VI.	MONITORING AND EVALUATION	14
	A. Reports.....	14
	B. Evaluations	15
	C. Supervision of the program.....	15
VII.	JUSTIFICATION AND RISKS.....	15
	A. Benefits.....	15
	B. Beneficiaries	16
	C. Risks	16
	D. Social impact and environmental review	17

VIII. SPECIAL CONTRACTUAL CONDITIONS.....	17
IX. SPECIAL MATTERS	17

ANNEXES

Annex I Logical framework/Performance indicators

ABBREVIATIONS

CALP	Caribbean Anti-Money Laundering Programme
CFATF	Caribbean Financial Action Task Force
CICAD	Inter-American Drug Abuse Control Commission
FIU	Financial Intelligence Unit
GAFISUD	Financial Action Task Force—South America
MIF	Multilateral Investment Fund
MPPMR	MIF Project Performance Monitoring Report
OAS	Organization of American States

I. ELIGIBILITY

- 1.1 This proposal for regional technical cooperation includes the following eight countries: Argentina, Bolivia, Brazil, Ecuador, Peru, Chile, Venezuela and Uruguay. These countries are eligible for all forms of MIF financing. The program, which would provide technical assistance for the creation, development and consolidation of Financial Intelligence Units (FIUs), will contribute to the long-term strengthening of financial systems through stronger supervision of market transparency. The program, therefore, addresses the eligibility criteria for MIF financing as stated in Article III, Section 2 (e) of the MIF Agreement, which establishes that under the Technical Cooperation Facility, grants shall be provided for technical cooperation, as appropriate, to governments and government agencies for assistance on developing and strengthening financial systems. This operation is considered to be of priority to the MIF because it will help to develop, strengthen, and safeguard transparency in the region's financial sector.
- 1.2 Regional eligibility of this operation is sought basically in view of the transnational nature of money laundering and the resulting need of the countries to work together in addressing this criminal activity. This feature shows that the present operation is designed to achieve a common goal of all beneficiary countries, namely the development of FIUs, as agencies in charge of obtaining, processing, and sharing intelligence that is normally not limited exclusively to the national level. The program also provides for horizontal cooperation between one country and another to strengthen links and coordinate responses to money laundering between the different FIUs. This initiative will be coordinated with two earlier regional technical-cooperation funding projects to combat money laundering in a similar group of countries and in sectors linked to FIU operations.

II. BACKGROUND

A. The money-laundering problem in the region

- 2.1 The purpose of money laundering is to make possible the legitimate use of the proceeds of crime. Therefore, if such activity goes unpunished, this encourages illegal activity and its side effects, such as violence and corruption. Furthermore, money laundering conducted through the financial system undermines the credibility of the sector and has a negative affect on investment and credit and, therefore, on productive industry, mainly that of the private sector. Other modes of money-laundering that infiltrate trade, tourism, the real estate business, the insurance business and the stock exchanges distort the behavior of these markets and prevent the making of accurate analyses and forecasts about the functioning of the economy. In short, money-laundering is perceived as a serious obstacle to the development of Latin America and the Caribbean, a fact that was acknowledged at Summit meetings by the Heads of State and of government of countries in the

hemisphere, who repeatedly expressed a clear commitment to the fight against money laundering.

- 2.2 In recent years, this activity, which because of its form and substance crosses the boundaries of state jurisdictions, has been the object of a forceful and sustained supranational response. Both multilateral institutions and corporations—especially financial corporations—have deployed an aggressive effort to curb the proliferation of these practices. Such institutions include the United Nations, the Financial Action Group and its regional bodies, the Inter-American Drug Abuse Control Commission of the Organization of American States, the International Monetary Fund, and the Latin American Federation of Banks. Principles and models of public and private behavior toward money-laundering have been articulated from global or regional forums such as the 40 Recommendations of the Financial Action Group and the OAS/CICAD Buenos Aires Action Plan; supervision and control mechanisms have been set up to ensure effective compliance with those guidelines and, lastly, severe sanctions have been instituted for non-cooperating countries and territories. In short, the presence of specialized international entities working to control money laundering has been intense and sustained.
- 2.3 On the domestic front, the States have also shown their willingness to expand efforts to control money laundering. It is safe to say that the vast majority of the Bank's borrowing member countries in Latin America and the Caribbean that are borrowers of the Bank have enacted legislation defining money-laundering as an offense in accordance with international standards. There also exists a more effective supervision of the financial industry, and from the financial sector, greater oversight with respect to the quality of the institutions, customers, and financial transactions. We are also seeing a greater openness to international cooperation in the battle against money-laundering practices. Moreover, innovative arrangements have been formalized in both the public and private sector, aimed at reinforcing inter-agency cooperation, and attempts are being made to achieve increased specialization within certain agencies in the struggle against money-laundering. The FIUs are an example of the latter.

B. The Financial Intelligence Units

- 2.4 The FIUs are entities whose primary function is to confirm the existence of a money-laundering operation, analyze its typology, and cooperate with the courts, law enforcement, and intelligence agencies or with FIUs in other countries in the identification of the trail and modes of the transaction and the individuals or legal entities involved in it. Basically, FIUs serve as intermediary institutions between the financial system and the judicial system in the following manner: certain entities, financial or other, are subject to a requirement to send the FIUs information on suspicious transactions; these units analyze and process the information received and refer the results of this function, to the extent they deem it pertinent, to the court system or the attorney general's office, the bank examiners, the offices of the

securities or insurance examiners, FIUs in other countries, or national or international law enforcement agencies.

- 2.5 An effective FIU plays an essential role in enabling compliance with Financial Action Task Force (FATF) regulations. Countries listed as “Non Cooperative” may be subject to sanctions that could include strong restrictions on transactions with FATF member countries. This would represent a major setback for private sector investment in censured countries.
- 2.6 The legal obligation on the part of the financial system to report suspicious transactions to FIUs implies a very clear step towards a more transparent scenario in financial sector operations. This increasing accountability, credibility, and stability in financial institutions and services will be critical for fostering private investment in the region, since it will (i) reduce volatility, (ii) improve transparency, and (iii) strengthen financial systems.
- 2.7 At the macroeconomic level, the ability to detect suspicious transactions will allow countries to increase banking transparency and, by discouraging massive illegal transactions through banks, to decrease the market volatility normally associated with sudden capital outflows and inflows and large exchange rate fluctuations, and to improve the conditions for successful participation of the private sector. Following this line of reasoning, decreased volatility and increased transparency in the banking system will help to build sound, robust financial system which will attract more investment to the region. Therefore, an increased degree of difficulty in transferring money obtained in illegal activities will help to reduce the incentives to engage in such activity, generating a better environment for private sector activities.
- 2.8 Different institutional models of FIUs have been adopted. Sometimes they are entirely independent units, sometimes they operate within the central banks or bank examiners’ offices; within law enforcement agencies or as part of the judicial system, but in all cases they are identified as agencies that perform a highly technical function in light of the complexity, sophistication, and dynamics of money-laundering practices. No other public or private agency is called upon to fulfill, or has the ability to fulfill, this responsibility. This is why FIUs have become a crucial element of any national strategy for dealing with the problem of money laundering. Last year, the Egmont Group, an entity specializing in FIUs (referred to in paragraph 2.7) identified one hundred cases of money laundering in which convictions and sentences had been obtained as a result of the contributions made by FIUs.
- 2.9 FIUs were first established in Latin America and the Caribbean in 1995. They now exhibit a striking diversity in terms of their degree of institutional maturity and effectiveness and their position within the structure of the public sector of these countries. They reflect political, institutional or budgetary circumstances peculiar to

each case and the special characteristics of the money laundering, which are not homogenous over the breadth of the region. Some countries have not yet set up an FIU, but even in these cases, and as can be inferred from the requests from the countries that are beneficiaries of this Program, there is recognition of the growing need for the benefits that these entities offer.

- 2.10 Model guidelines or traits of the FIU have been furnished to the international community by the Egmont Group beginning in 1995, the year when that group was established in Brussels as an international network of FIUs with the goal of promoting their establishment, professionalism, and mutual cooperation. Therefore, recognition of the national FIUs by the Egmont Group is of utmost importance, both for these units and for their home countries. According to Egmont Group criteria, the basic characteristics that should enable an FIU to operate with an acceptable degree of effectiveness are the following: a) legal frameworks that ensure that FIUs receive relevant and timely information on suspicious transactions; b) capacity for administratively centralizing that information; c) specialized multidisciplinary personnel (auditors, attorneys, statisticians, computer specialists, etc.); d) technology for communication, storage and processing of high volumes of data, much of which is confidential; and e) a specific budget that enables FIUs to operate independently.
- 2.11 In the English-speaking zone of the Caribbean, international cooperation—both bilateral and multilateral—has responded alertly to requests for assistance from countries that wish to install or strengthen an FIU. The *Caribbean Anti-Money Laundering Programme* (CALP), financed with US. and European funds, has furnished substantial support in this direction. In the near future, the Caribbean Financial Action Task Force (CFATF) will coordinate assistance to Central American member countries. In South America, despite the visible progress made in most of the countries in the design and implementation of anti-laundering policies (regulatory frameworks, personnel training, international legal cooperation, etc.), no significant support has been received for FIUs despite reiterated interest in external assistance. A comprehensive plan of technical assistance specifically directed to these organizations is, therefore, becoming an imperative for the consolidation of that progress.

C. Status of FIUs in South America

- 2.12 In South America there are countries like Chile, Ecuador, and Peru that have not yet set up an FIU; those which have shown that they have a functioning, yet insufficiently developed FIUs (Argentina, Uruguay, Paraguay and Venezuela) and those where we see FIUs operating at a satisfactory though not optimum level, such as the cases of Brazil and Bolivia. The exemplary excellence of the Colombian FIU is indicative of the possibilities and opportunities for incremental progress that are open to other countries in the hemisphere if support for these entities is strategically planned. The legal particulars, financial or human resources, and the length of

operations account for the differences in development while identifying the paths to be taken so that FIUs can attain a satisfactory level of efficiency.

- 2.13 This plurality of scenarios implies a correlative variety of shortcomings in FIUs. That is why this initiative calls for an plan of operations that allows the assistance to be differentiated to match the differentiated needs, while permitting the coverage of a vast universe of beneficiaries. It also empowers horizontal cooperation among countries, thereby accentuating the regional nature of the program.

D. Actions by the Bank in the control of money-laundering

- 2.14 The Bank has completed one regional program that covered seven countries. It was aimed at training the personnel of the supervisory and supervised entities in the financial system in the prevention of money-laundering transactions.² A second operation³ is now under way, intended to improve the response by the courts to money laundering in a universe of countries similar to the previous one. The support for the process of creating and consolidating the FIUs in the South America subregion enables us to predict that the impact of the operations mentioned above will have a multiplier effect since the financial and judicial sectors are, respectively, suppliers and beneficiaries of FIUs.
- 2.15 The Bank has also financed two projects that produced an overview of information on the process of strengthening FIUs and a preliminary identification of the needs of these agencies, which will help justify this initiative⁴. Other interventions in support of the action of the specialized regional entities (CFATF and the Financial Action Task Force – South America - GAFISUD) or that call for the expansion of earlier programs to new geographical areas are now in the preparation stage and are, as a whole, consistent with this effort.
- 2.16 The Bank has also been actively involved in coordinating with other donor agencies in the region in providing financial or technical assistance for anti-money laundering initiatives. Other donor agencies such as the World Bank and the IMF are providing a forum for further inter-agency collaboration supported by needs assessment exercises and providing financial assistance within large financial sector operations. The Bank is, through this operation, responding to specific requests on the part of the beneficiary countries, received both directly and through the OAS/CICAD, to act, on a regional basis, in support of FIUs as critical agencies in any anti-money laundering strategy. There are presently no other forms of

² “Ensuring the Integrity of Financial Markets in Latin America” (ATN/MT-5909-RG), already executed and being evaluated.

³ “Combating money-laundering from the Judicial System” (ATN/SF-7485-RG), being carried out by OAS/CICAD.

⁴ “Design of training programs to support the FIU” (ATN/SF-6304-RG); and “Operations Manual for a FIU” (ATN/SF-6928-RG), two programs carried out by OAS/CICAD that are now completed.

financing from any other international organization or other institution for the kind and scope of activities presented in this MIF program. Therefore, the MIF's role in this initiative is critical to providing a timely response to new aspects of financial sector development in the region.

E. The executing agency

- 2.17 The program will be carried out by the Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS). The OAS/CICAD has been given a specific mandate to assist the countries of the region in combating money-laundering, and has more than a decade of experience in implementation of technical cooperation projects⁵, assistance in the legal field, evaluations, and dissemination of the current international standards for minimizing financial crimes. This experience, and the OAS/CICAD's familiarity with the realities of FIUs in the region, as well as its connections with official interlocutors in these countries and with experts and specialized agencies, led to its selection as the executing body for this program. Lastly, the OAS/CICAD, together with the Bank, received a specific mandate to assist the development of FIUs in the region at the Summit Meeting of Heads of State and Government held in 2001.

III. OBJECTIVES AND DESCRIPTION OF THE PROGRAM

A. Objective

- 3.1 The general objective of the program is to help reduce money laundering to a minimum. The specific objective is to support the process of establishing new FIUs and to consolidate for purposes of efficiency those now in place in South America.

B. Description

1. Grouping FIUs according to the degree of their development

- 3.2 The program will qualify the countries for a variety of offers of technical cooperation, depending on the phase of institutionalization of their individual FIUs. To that end, and as suggested in paragraph 2.12, the universe of program beneficiary countries will be subdivided into three groups. The criteria used to group the countries reflect variables that are weighed by the Egmont Group, specialized organizations such as CFATF and the OAS /CICAD, and self-evaluations performed by the countries themselves.
- 3.3 **Group A:** A first group will be composed of countries that have not yet established an FIU. (Ecuador, Chile and Peru). These countries have not enacted regulations

⁵ Among them, and to the Bank's entire satisfaction, those mentioned in footnotes on pages 2, 3 and 4.

creating an FIU and do not have agencies that perform the functions typical of an FIU in a specialized fashion.

- 3.4 **Group B:** A second group will be composed of countries whose FIUs have exhibited an insufficient state of development (Argentina, Uruguay and Venezuela). In these cases, specialized entities exist and possess authority defined by the law to operate as FIUs, but they have exhibited shortcomings in their institutional design, the profile or training of their personnel, or the technological support necessary to properly fulfill their mission.
- 3.5 **Group C:** A third group will comprise countries whose FIUs are fully functioning but have not yet achieved optimum efficiency (Brazil and Bolivia). The FIUs in these countries are the oldest ones (dating back to 1996/1997). They have amassed successes in the identification of criminal operations and have also drafted operations manuals. However, the increased volume and the scope of their tasks (federalization in the case of Brazil) means that they need more sophisticated technology and a higher level of expertise in their command echelons.

2. Areas of intervention

- 3.6 In response to the aforesaid distribution, this program will finance technical assistance in the following four areas:
 - a. **Development of legal frameworks.** The regulatory frameworks must appropriately identify those who are required to report suspicious transactions to FIUs (institutions, professions, businesses) and clearly define their responsibilities (as receivers or requesters of information, regulators, etc.).
 - b. **Institutional development.** The effectiveness of FIUs will depend largely on whether their institutional structure makes it possible to hire and organize the number of qualified staff needed to cover the flow of transactions and to coordinate their functions with the institutions with which information is shared. The quality and efficiency with which information is passed between FIUs and other national agencies will also result in appropriate institutional solutions.
 - c. **Personnel training.** Specialized multidisciplinary training is vital to the recognition of the dynamic and complex particulars of money-laundering operations and the configuration of data on these operations in the form of cases that can be prosecuted in the courts. This training may cover: the typology of money-laundering, methods of investigating money-laundering operations, tracking capital flows, operations of financial institutions, aspects related to evidence in criminal operations, intelligence-gathering, preparation of court cases, etc. At present there is an increasing number of specialized

courses in these areas, given by universities within and outside the region, international auditing firms, and other FIUs.

- d. **Information and communications technology.** This aspect is essential to entities whose value-added is to find, verify, track, and present information at the proper time and in the right form. The availability of equipment and software is critical to the management of significant volumes of reports, and for cross-checking data with different databases, communicating classified information, and promptness in exchanging information, etc.

3. Eligible interventions, by FIU group

- 3.7 **Group A (US\$150,000).** Following are the interventions for which countries that have not yet established an FIU are eligible:

- ?? **Development of legal frameworks:** Legal assistance directed towards: (i) the preparation, refinement or regulation of legal frameworks that call for the creation of an FIU; (ii) the assignment and definition of the authority necessary to operate in accordance with current international standards; and (iii) establishing their institutional location and the context of inter-agency relations within the public sector.

- ?? **Institutional development:** Technical assistance in support of: (i) the development of an organizational chart for the entity; (ii) the identification of positions, duties, and qualifications required of the corresponding human resources; and (iii) the drafting of guides for the budget, or other aspects, that would ensure the operational nature and administrative adaptation of FIUs.

- ?? **Personnel training:** Technical assistance directed toward the identification of future personnel training needs.

- ?? **Information and communications technology:** Technical assistance directed toward the identification of future needs in terms of information and communications technology.

- 3.8 The technical assistance described above will be furnished by specialized consulting firms.

- 3.9 Group A countries may join Group B and therefore have access to the technical cooperation approved for this Group, to the extent that they can show they have officially established an FIU, within an appropriate legal and institutional framework and an approved budget and after evaluation of their needs for the aforementioned training and methods if they require assistance under these headings. The executing agency will assess the aptitude for eligibility of these

countries to be included in Group B under the aforementioned criteria, which must be substantiated in an expansion of the strategic plan mentioned in Chapter III.4.

3.10 **Group B (US\$540,000).** Countries that need assistance in the development of their FIUs may choose from the following list of interventions:

?? **Institutional development:** Assistance with institutional development under the terms established in 3.7.

?? **Personnel training:** Opportunities for: (i) in-service training of staff in operating FIUs that can serve as models for the beneficiary FIUs and (ii) training provided by foreign experts in aspects to be selected by FIUs.

?? **Information and communications technology.** Purchase of computer equipment (computers, servers) and programs or applications that are consistent with the development and professional capacity of FIUs, supplemented, if necessary, by training in their effective and efficient utilization.

3.11 In this group, FIUs will only be able to benefit from the interventions available in the areas of training and technology if they can show that they have designed personnel rosters with a view to stability and permanence within an acceptable organizational framework.

3.12 **Group C (US\$280,000).** The countries that wish to consolidate their FIUs may access the following modes and areas of technical assistance:

?? **Personnel training:** Training designed for officials in high-level management and middle-level specialized managers, including: (i) advanced training at the master's level for one (1) high-ranking official in areas considered critical to the work of FIUs (statistics, auditing and censuses, information technology, laws etc.). Assurance must be given that the beneficiary individual will remain at FIUs for at least four years after having completed the schooling; (ii) participation by two (2) staffers in short courses at the advanced level in a foreign country; and (iii) in-service training for one (1) employee at a foreign FIU where he/she can learn from experiences applicable to the beneficiary FIU.

?? **Information and communications technology.** The purchase of computer equipment and software will be handled in accordance with the terms established for Group B countries, where this component may overcome equipment and software obsolescence and enable FIUs to cope with their growth.

4. National strategic plans

- 3.13 Active participation by individual countries in identifying their general needs and, on this basis, the technical assistance provided under the program as well as a commitment on the part of the countries to ensure its sustainability, will serve as prerequisite for their access to technical-cooperation funding. To that end, each beneficiary country will prepare a strategic plan for establishing, developing, or consolidating its FIU, as appropriate with the backing of this commitment.
- 3.14 The strategic plan must incorporate the following aspects: a) a description of the context for the creation or development of an FIU; b) on that basis, an identification, substantiation, and prioritization of short- and medium-term (five year) objectives; c) with reference to the identified objectives, a detailed description of the needs for tools to achieve them and the corresponding identification of interventions that will need to be requested, according to what the program offers; d) a detailed budget, including the local counterpart, which will complement or reinforce the technical cooperation to be received; and e) a schedule for implementation of the strategic plan, including provision of the counterpart.
- 3.15 The executing agency will ask the beneficiary countries within 30 days after the agreement is signed with the Bank to present a strategic plan. The interlocutors for the countries will be the Ministries of Finance or such entities as are designated by the latter in the case of Group A countries and FIUs in the case of the Group B and C countries. The countries will have a maximum of three months to submit their plans to the executing agency for analysis, evaluation, and approval. This process of analysis and approval will take no more than four months from receipt of the plans. The final agreement with countries as to the assistance to be received must obtain the Bank's "no objection." Approval by the executing agency of the expanded strategic plan (paragraph 3.9) should be completed within two months after its receipt, and must also have the Bank's non-objection.
- 3.16 Generally speaking, the evaluation criteria set out in the plans by the executing agency will reflect the information at its disposal culled from regular assessments of anti-money-laundering activities in the countries. Approval of the plans will ensure that: (a) objectives identified are adapted to the particular context in the country (political, legal, institutional, and budgetary), (b) needs identified are consistent with the objectives targeted, (c) the selected outputs of the technical assistance correspond to the needs identified, (d) the estimated budget is in keeping with the technical assistance outputs to be received and the local counterpart contributions, and (e) the feasibility of complying with the schedule within the program deadlines.
- 3.17 Depending on the type and scope of intervention planned for each group, the Group A countries may request technical assistance valued at no more than US\$50,000 if they access only the offer made available to that group. If they qualify to access the financing provided for Group B, they will be able to benefit from a maximum

additional sum of US\$90,000, the amount arranged for Group B countries. Group C countries will be eligible for a top sum of US\$140,000. Purchases of goods in the area of technology may not exceed 30% of the total financing received by the beneficiary. The local counterpart to be furnished by the countries will be one-third of the funds sought from the MIF under the category of technical assistance (see paragraph 4.4).

- 3.18 The technical cooperation plans will be carried out during a period of not more than two years from approval of the plan by the executing agency.

IV. COST AND FINANCING

- 4.1 Total program cost has been estimated at US\$1,893,000, as shown in the following budget:

In US\$

Components	MIF	CICAD	Local	Total
1. Technical assistance	970,000		323,00	1,293,000
?? Group A: 3 Countries x \$50,000/Country	150,000			
?? Group B/A: 6 Countries x \$90,000/Country	540,000			
?? Group C: 2 Countries x \$140,000/Country	280,000			
2. Coordination	220,000	220,000		440,00
?? Fees for Coordinators	220,000	170,000		
?? Administrative support		50,000		
3. Evaluation	60,000			60,000
4. Audits	30,000			30,000
5. Contingencies	40,000	30,000		70,000
Total	1,320,000	250,000	323,000	1,893,000

- 4.2 The contribution requested from the MIF will be in the form of a grant and will cover the following headings: (a) technical assistance requested by the countries from the list of interventions for which each group is eligible, with the possibility that Group A countries may also access the technical assistance planned for Group B (see paragraph 3.9); (b) fees for the program coordinator, (c) evaluation expenses, and (d) the expenses of the financial audits required by the program.
- 4.3 The OAS/CICAD, as the executing agency, will allocate to the development and execution of the program a contribution estimated at \$250,000, which will supplement the MIF financing for coordination of the program in order to ensure its effectiveness. Of this amount, US\$150,000 will be in cash and the remainder in kind.
- 4.4 The contribution by the countries has been estimated at up to US\$323,000, or one-third of the financing they will receive as program beneficiaries. (see paragraph 3.17). The counterpart may be furnished in cash or in kind (up to 50% in the latter

case) and may be charged to: (a) expenses associated with the implementation of the technical assistance (logistical support for experts or for training courses, etc.); (b) investment or expense for incorporating or supplementing the technical assistance according to the objectives outlined in the strategic plan (equipment purchase, contracting of specialized personnel, leasing of space, etc.); and (c) horizontal technical cooperation among beneficiary countries consistent with the approved strategic plan (in-service training by experts, technology transfers, etc.). The counterpart contribution must be committed when the strategic plan is approved and must be furnished according to the agreed timetable. The country contributions must be credited to the executing agency once they have been made and in accordance with the Bank's accounting and auditing requirements.

- 4.5 The sustainability of the program will be ensured by the countries' commitment to support the FIUs in their letters of application and in the strategic plans as a condition precedent to approval of their eligibility as beneficiaries. Also, the program provides for horizontal technical cooperation in the form of counterpart contributions and any understandings that might emanate from the final evaluation meeting (paragraph 6.3) will set the stage for greater communication, complementarity, and collaboration between the countries that will tend to increase the future self-sufficiency of the group in terms of external financing.

V. EXECUTION OF THE PROGRAM

A. Execution of the program

- 5.1 The Inter-American Drug Abuse Control Commission (CICAD) of the Organization of American States (OAS) will be responsible for executing this program. The OAS/CICAD, which was officially set up in 1986, is based in Washington, D.C. with a staff of 45 highly qualified technical and administrative staff. The organization has carried out Bank-financed operations in the past as well as one financed by the MIF. It is also presently engaged in such operations. The agency has proven to be highly degree of professionalism in administering its resources, in the quality of the documentation submitted to the Bank, and in the timeliness of its submissions and the full collaboration in assisting with audits and evaluations.
- 5.2 The executing agency will be responsible for:
- a. assisting countries with the configuration of their strategic plans, if the beneficiary countries request this;
 - b. receiving and analyzing the strategic plans submitted by the countries, and reaching agreement with them on the nature of the technical cooperation that

they will receive within the framework of the offer of assistance for which each is eligible;

- c. ensuring that the agreed technical cooperation is implemented in the anticipated sequence.
 - d. administering program resources, which includes, mainly, (i) contracting of goods and services necessary to the execution of technical cooperation and (ii) coordination of local support with the support of the program itself.
 - e. identifying the interlocutors of the countries that will represent the local counterpart throughout the program.
- 5.3 The executing agency will retain a coordinator, charged to the MIF contribution, within two months of signature of the agreement with the Bank⁶. The number and diversity of the beneficiary countries and the extent of participation being demanded of them in the determination of the assistance to which they will be entitled will make it necessary to reinforce the coordination with technical staffers provided by the executing agency. The coordinator, with the help of an OAS/CICAD technical expert and an additional expert to be hired by the executing agency out of resources other than the MIF contribution, must: a) assist the countries who request help with the design of their strategic plans; and b) monitor the execution of the program.
- 5.4 Procurement of goods and services by the program will be governed by the corresponding Bank and MIF policies.

B. Disbursements

- 5.5 Disbursements will be made from a revolving fund consisting of 20% of the MIF contribution, except for outlays under the headings of evaluation and contingencies.

C. Time frames

- 5.6 The program is to be carried out over a period of 32 months. The technical cooperation plans are to be executed in the countries within two years. Disbursements will be made over a period of 40 months.

D. Accounting and auditing

- 5.7 The executing agency shall set up and be responsible for keeping proper financial accounting records, internal controls, and filing systems that make it possible to identify the source and application of program funds. The accounting system shall be organized so as to produce the necessary documents, facilitate verification of

⁶ See terms of reference in program technical files.

transactions, and allow timely preparation of the financial statements and reports. Related project records will be filed so as (i) to identify amounts received from different sources, (ii) to report project expenses in accordance with a chart of accounts previously approved by the Bank, segregating MIF contributions and funds from other sources, and (iii) to include such information as is necessary to identify goods acquired and services hired as well as the use of such goods and services. The executing agency will also open separate and specific bank accounts for the administration of the MIF contribution. Lastly, the executing agency will process the requests for disbursement and their respective justifications of expenses, according to Bank disbursement procedures.

- 5.8 Within 90 after the final disbursement, the executing agency will prepare and submit to the Bank the final financial statements of the Bank's contribution and the local counterpart funding. A firm of independent auditors acceptable to the Bank will audit these statements. The cost of the audit will be funded out of the MIF contribution in accordance with Bank procedures.

E. Condition for implementing the program

- 5.9 The basic conditions for implementing this operation have been verified. They are:
- a. the requests for assistance and the corresponding commitment on the part of beneficiary countries with respect to the establishment and strengthening of FIUs, as applicable, and
 - b. the hiring of additional staff particularly for monitoring of the program by the executing agency.

VI. MONITORING AND EVALUATION

A. Reports

- 6.1 The executing agency will present to the Bank for its approval the following reports:
- a. The schedule mentioned in paragraph 8.1 within 8 months after the agreement is signed.
 - b. An annual progress report by 31 January of the year following the year under review, describing (i) the status of the strategic plans (by country), and (ii) a critical appreciation of the progress made, verified by the FIUs, in accordance with the objectives proposed in the plans and taking into account the logical framework indicators.

- c. A final comprehensive report within 90 days after completion of the project that will review the points covered in the preceding paragraph.
 - d. A financial report (see paragraph 5.8).
- 6.2 The Bank will use the reports indicated in paragraph 6.1(b) and (c) to supervise the rate of advance in implementing the program and to prepare a project completion report within three months after the last disbursement.

B. Evaluations

- 6.3 The Bank will use the project funding to hire within six months after completion of the program individual consultants to perform an independent evaluation.
- 6.4 In addition, at the annual meeting of the OAS/CICAD Experts Group held the year after completion of the program, a one-day meeting will be held to assess its outcomes in each country. The Experts Group is made up mainly of FIU authorities, a feature that makes this forum the most suitable setting for such an exercise. The meeting will offer an opportunity to confirm the progress made in terms of FIU operations under the program, specifically their impact on financial sector transparency and how this may have favored investment. This forum will also help identify and even reach agreement on areas of technical cooperation between FIUs in the future to ensure the sustainability of the program.

C. Supervision of the program

- 6.5 Basic responsibility for the program will rest with the Regional Technical Cooperation Division of the Integration and Regional Programs Department (INT/RTC), which will supervise program execution including the processing and authorization of disbursements. The Legal Department (LEG) will have technical responsibility for the operation and, working closely with RTC and the MIF, will indicate its nonobjection to technical documentation as required. .

VII. JUSTIFICATION AND RISKS

A. Benefits

- 7.1 The program will contribute to the formation, in South America, of a contingent of highly efficient FIUs that will be able to effectively fulfill their role in the identification of money-laundering offenses and their perpetrators, and to serve as efficient links with the other agencies involved in this process at the national and international levels. The function of FIUs as agencies specialized in the recognition of these highly complex crimes makes a substantial contribution to the battle against them in the various countries. It is expected that the installation of new FIUs and the strengthening of existing units will substantially contribute to that effort and

have a positive impact on the quality of social and political life and on the credibility of the financial system in the region.

- 7.2 Within the framework of the Bank's actions in the context of the battle against money-laundering, the support to the satisfactory functioning of FIUs that this program imparts will complement the assistance that the institution has been providing to the financial and judicial sectors, thereby closing the circle of strengthening of agencies that are perceived as central to money-laundering prevention policies in South America.

B. Beneficiaries

- 7.3 The following countries will be beneficiaries of the program: Argentina, Bolivia, Brazil, Chile, Ecuador, Peru, Uruguay, and Venezuela. Paraguay and Colombia are not on this list because in the case of Paraguay a Bank operation on financial intelligence is now under way and in the case of Colombia FIUs in that country have already achieved an exemplary level of operational efficiency. All beneficiary countries have submitted requests for assistance along the lines of the present operation, together with a commitment to monitor and adhere to its objectives over time.

C. Risks

- 7.4 No risks are anticipated for this program in light of the commitment and participation required of the countries prior to its execution, such as the submission of credible plans for creating or developing their FIUs. The proven ability of the executing agency, plus the anticipated reinforcement of the work of program coordination and the possibility made available to the countries to receive guidance in formulating their plans, will make it possible to overcome any risk stemming from the inadequate design of those plans. The risk that the impact of the operation, measured in terms of incremental effectiveness of FIUs, may not reflect the contribution of the program, derives from the inherent dependency of these agencies with respect to other institutions, principally individuals and areas that are duly required to report suspicious transactions promptly and the judicial authorities, which must also duly substantiate the cases brought before them promptly. Nevertheless, in light of the contributions that the Bank and other sources of financing have given to these institutions in the subregion in the past, it may be concluded that the operating context of the FIUs will substantially improve while ensuring a comprehensive and coordinated approach to control money laundering. Nothing in the operation suggests that there will be any impact at all on the environment.

D. Social impact and environmental review

- 7.5 No comments or recommendations were made as a result of the review of social impact and environment conducted on 22 February 2002 (TRG 07-02).

VIII. SPECIAL CONTRACTUAL CONDITIONS

- 8.1 As conditions precedent to the first disbursement, the executing agency must secure the Bank's non-objection to the selection of the coordinator to be hired with MIF resources and must confirm that availability of staff to monitor the program. Before the replenishment of the revolving fund, the executing agency must provide the Bank with a timetable for the activities scheduled in the intervention plans agreed on with the countries.

IX. SPECIAL MATTERS

- 9.1 Owing to the specialized technical nature of the training planned for the FIU personnel, particularly in Group C countries, such training will be permitted to take place in any MIF member country.