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September 28, 2002

To: Members of the Executive Board

From: The Secretary

Subject: **Statement of the Group of Seven Finance Ministers and Central Bank Governors and First Year Report on Combating the Financing of Terrorism**

Attached for the information of the Executive Directors are the statement and first year report on combating the financing of terrorism of the Group of Seven Finance Ministers and Central Bank Governors delivered in Washington, D.C. on September 27, 2002.

Att: (2)

Other Distribution:  
Department Heads



**Statement of G-7 Finance Ministers and Central Bank Governors  
Washington, DC, September 27, 2002**

Economic growth in our countries is continuing, though at a more moderate pace than earlier this year. We recognize that risks remain. We are committed to sound economic policies and structural reforms, and to working together to improve corporate disclosure, enhance corporate accountability, and strengthen the independence of auditing. We are confident that these policies, accompanied by continued vigilance and cooperation, will strengthen growth in coming months, and thus support sustained expansion. We will continue to monitor exchange markets closely and cooperate as appropriate.

Many emerging markets, buttressed by progress towards sound domestic policy frameworks, are managing well in the current environment. But some face considerable challenges. We urge all countries to implement strong policies to restore sustained growth and reduce external vulnerabilities. We welcome Brazil's continued commitment to sound policies and are ready to support Argentina, through the IMF, in the context of a sustainable program.

We are implementing the G-7 April Action Plan on crisis prevention and resolution. We continue to work with the IMF to improve our tools for crisis prevention. We also will continue to work with the IMF to implement criteria and procedures to limit official sector lending to normal access levels except where extraordinary circumstances justify an exception. Important progress has been made towards a market-oriented, contractual approach to sovereign debt restructuring. We welcome the private sector and issuing countries' support for placing collective action clauses in sovereign bond issues. We agree that any sovereign that issues bonds governed by the jurisdiction of another sovereign should include such clauses. We welcome the work done to date by the IMF on a statutory sovereign debt restructuring mechanism, and look forward to considering a concrete proposal at its spring meeting.

We reaffirm our strong commitment to combat terrorist financing. We applaud the agreement by the IMF and World Bank on a comprehensive methodology to conduct assessments of the Financial Action Task Force's (FATF) anti-money laundering and terrorist financing recommendations and look forward to the formal endorsement of this methodology at FATF's upcoming plenary. We urge the FATF to develop guidance on combating the abuse of non-profit organizations, alternative remittance systems, and fund transfers, as well as making measures for freezing assets more effective. We call on the IMF, World Bank, and the UN to work with the FATF in its identification of jurisdictions that require assessments and technical assistance. We also reviewed developments on procedures to exchange bank and other information for all tax purposes, and we are united that further progress is required by some countries.

We support increased development assistance based on good policy performance and measurable results. We support the calls made at Monterrey and Johannesburg to combat global poverty and promote sustainable development, growth, and fiscal sustainability through a new and effective partnership between developed and developing countries. We welcome the IDA, AfDF, and GEF replenishments which should make available \$30 billion to developing countries, in particular in Africa. We are following through on the Kananaskis commitment to bear our share of the shortfall of up to \$1 billion in the financing of HIPC. Each of us will be stating our contribution in the near future and call on other creditor countries to join us. We urge developed and developing country members of the WTO to make substantial progress in multilateral trade negotiations and to reduce significantly trade barriers to global economic growth and poverty alleviation.

We call on international donors to expedite the delivery of assistance that supports the budget of the government of Afghanistan and that achieves visible reconstruction.

# **COMBATING THE FINANCING OF TERRORISM: FIRST YEAR REPORT**

## **Background**

With the one year anniversary of the tragic events of September 11, 2001, cutting off the financing of terrorism remains a key element of the fight against terrorism.

In October 2001, G-7 Finance Ministers issued an Action Plan to Combat the Financing of Terrorism and pledged to work with the broader international community to achieve results. The Plan included immediate actions to stop the flow of terrorist funds as well as structural changes to guard against the use of the international financial system for the financing of terrorism. On February 9, 2002, Ministers discussed their ongoing efforts in this area and issued a follow-up Action Plan noting the progress to date and setting out further measures needed.

This report describes the wide range of measures taken to successfully implement the G-7 Finance Ministers' Action Plan.

## **Stopping the Flow of Funds to Terrorists**

The Action Plan called for immediate and concerted international action to freeze terrorist assets, consistent with provisions of the relevant United Nations Security Council Resolutions and the International Convention for the Suppression of the Financing of Terrorism.

Since September 11, over 160 countries and jurisdictions have taken concrete action to freeze terrorist assets, and approximately US \$112 million in terrorist-related funds has been frozen worldwide. Over 200 countries and jurisdictions have joined the G-7 in expressing support for the fight against terrorist financing.

The UN Security Council Committee, established pursuant to UNSC Resolution 1267, currently lists 313 individuals and entities whose financial assets must be frozen by member countries. In keeping with the framework of UN Security Council Resolution 1373, many individual countries, as well as the European Union, have also identified and listed terrorists for the purpose of applying sanctions.

G-7 Finance Ministers have, in addition to promoting broad participation in freezing actions, sought to improve the coordination of these activities among G-7 countries. Significant progress has been made through the cooperative efforts of finance, foreign affairs, justice, law enforcement and intelligence officials. G-7 countries will continue to develop mutual understanding of the information needed to support freezing actions, the nature of the actions that can be taken in each country, and the time needed to take such actions. Building on these efforts, G-7 Finance Ministers announced, on April 19, 2002, the first joint G-7 identification of terrorist entities and individuals and coordinated asset freezing in all G-7 countries.

These achievements have been made possible by the extraordinary efforts of financial regulators and institutions, which have worked with the relevant authorities to ensure that the assets of listed terrorists are identified and frozen.

With the ultimate aim of countering all terrorist activities, the G-7 will work closely together in targeting, disrupting, and closing down sources of terrorism financing. G-7 countries will continue to take freezing actions against terrorist assets, and to reach out to and work cooperatively with other international partners toward ensuring that terrorist assets do not flow through the international financial system.

## **International Standards to Guard Against Terrorism Financing**

The G-7 Action Plan promoted the development and implementation of international standards to combat terrorist financing in a number of ways, including by calling for the vigorous implementation of the relevant UN instruments and by asking the Financial Action Task Force on Money Laundering (FATF) to develop special recommendations to deal with terrorist financing. It also encouraged the International Monetary Fund (IMF) and the World Bank to quickly complete their collaborative work with the FATF on a comprehensive framework for assessing compliance with standards against money laundering and terrorist financing.

### ***Implementation of United Nations Instruments***

United Nations Security Council Resolution 1373 requires that all UN members criminalize the financing of terrorism and refrain from providing any form of support to those involved in terrorist acts. G-7 countries are among the 175 UN members that have reported to the UN Counter-Terrorism Committee on the steps taken to implement Resolution 1373. The Committee is following up with the 15 members that have not yet submitted reports. The Committee's review of country reports will help identify areas in which further action is needed.

All G-7 countries have signed the International Convention for the Suppression of the Financing of Terrorism, and have either ratified it or are taking steps to enable them to do so quickly. Over 130 countries have now signed the Convention and 45 countries have ratified it.

### ***FATF Special Recommendations***

On October 31, 2001, the FATF issued eight Special Recommendations on Terrorist Financing. In April, G-7 Finance Ministers committed to ensuring that legitimate institutions, organizations, and networks are not misused by terrorists and their supporters and, in this regard, we welcome the work underway to develop guidance on combating the abuse of non-profit organizations, alternative remittance systems, and fund transfers, as well as making measures for freezing assets more effective.

As called for by the FATF's plan of action, all FATF countries have completed a self-assessment of their compliance with the Recommendations and are committed to coming into compliance. The FATF, the G-7, and the UN Counter Terrorism Committee have encouraged all non-FATF countries to comply with the standards and to accept the FATF invitation to participate in the self-assessment exercise on the same terms as FATF members. To date, over 100 jurisdictions have submitted self-assessment questionnaires to FATF.

Regional FATF-style bodies are contributing to the widespread implementation and assessment of international standards against terrorist financing. Most such regional bodies have formally expanded their mandates to encompass the fight against terrorist financing and, in particular, to

actively oversee and facilitate the implementation of the FATF Special Recommendations by their members.

### ***Identification of Countries that Lack Appropriate Measures***

At their Plenary meeting of June 19-21 2002, the FATF agreed to initiate a process to identify jurisdictions that lack appropriate measures to combat terrorist financing, and discussed next steps to encourage cooperation from such countries.

This is an important element of the international community's response to countries that fail to take appropriate action on a timely basis. To be effective and constructive, the FATF process must encourage and support the rapid implementation of standards and, at the same time, recognize that some jurisdictions will require technical assistance to enable them to make the necessary improvements. Accordingly, G-7 Finance Ministers welcome FATF's efforts to develop a process to identify countries that lack appropriate measures to counter terrorist financing for follow-up assessment and/or technical assistance by the IMF, World Bank and the United Nations. It is essential that these international bodies lend their full support and co-operation to this exercise in particular, to ensure adequate technical assistance.

### ***IMF and World Bank Initiatives***

The IMF and World Bank have significantly intensified their involvement relating to anti-money laundering and combating the financing of terrorism. Since February 2002, the IMF has included the examination of countries' anti-money laundering and combating the financing of terrorism measures in the course of their Financial Sector Assessment Program (FSAP) assessments and their assessments of offshore financial centres' legal, regulatory and supervisory systems. These assessments have helped to identify weaknesses, which the IMF and World Bank are helping countries to address.

In mid-summer 2002, IMF and World Bank Executive Boards endorsed proposals to further enhance their contributions to the international effort on anti-money laundering and the combat against the financing of terrorism (AML/CFT). The Boards agreed to add the FATF 40 + 8 to the list of standards to be assessed, to endorse methods for undertaking assessments and preparing reports on AML/CFT, and to support a 12 month pilot program. The FATF, in collaboration with the IMF and World Bank, is finalizing a comprehensive and unified methodology for assessing implementation of AML/CFT standards based on FATF Recommendations. The G-7 supports these efforts and looks forward to full integration of comprehensive anti-money laundering and combating the financing of terrorism assessments into Fund and Bank operations.

### ***Technical Assistance***

The requirement that all countries respond quickly to the threat of terrorism by implementing measures called for by the UN and the FATF means that the need for technical assistance is likely to be more pressing than ever before.

Efforts are underway to coordinate and deliver technical assistance quickly -- most notably by the UN Counter-Terrorism Committee and by the World Bank and IMF. The UN Counter-Terrorism Committee has begun to compile a directory of available assistance. The World Bank

and IMF are establishing a coordination mechanism for technical assistance for both anti-money laundering and combating the financing of terrorism among various stakeholders.

G-7 countries will provide technical assistance to committed and willing countries on a bilateral basis as well as support the efforts of the international organizations and mechanisms noted above.