

March 14, 2002
Approval: 3/21/02

INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 01/116

10:00 a.m., November 12, 2001

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Executive Board Attendance

H. Köhler, Chairman
A. Krueger, Acting Chair
E. Aninat, Acting Chair

Executive Directors

S.M. Al-Turki
A. Barro Chambrier

M.J. Callaghan
R.F. Cippà
K. Bischofberger
P.C. Padoan
D.I. Djojosebrotto
V.L. Kelkar
W. Kiekens
O.-P. Lehmussaari
R. Quarles
P. Duquesne

A.V. Mozhin

S. Pickford

C.D.R. Rustomjee
A.S. Shaalan
Wei Benhua
J. de Beaufort Wijnholds
K. Yagi
A.G. Zoccali

Alternate Executive Directors

A.S. Alosaimi
D. Ondo Mañe,
A.R. Ismael, Temporary
P.R. Fenton, Temporary

W. Szczuka
R. von Kleist

G. Bauche
M. Daïri
A. Lushin
F. Varela
S.P. Collins
R. Junguito

Jin Qi

G.R. Le Fort

S.J. Anjaria, Secretary
A.S. Linde, Acting Secretary
Z.R. Ahmed, Assistant
T. Davidson, Assistant

Also Present

IBRD: Poverty Reduction and Economic Management Office: S. Shetty, Poverty Reduction and Economic Management Office: M. Waxman. African Department: G. El-Masry. Asia and Pacific Department: P. Winglee, H. Zebregs. European I Department: M. Takeda. European II Department: A. Banerji, D. Owen. External Relations Department: T.C. Dawson, Director; M. Bell, W. Camard, W. Murray. Legal Department: F.P. Gianviti, General Counsel; W.E. Holder, Deputy General Counsel; R. Gordon, N. Kyriakos-Saad. Monetary and Exchange Affairs Department: S. Ingves, Director; J. Abbott, T. Balino, U. Das, H. Evans, A.A. Guide, D. Hardy, P. Ugolini. Policy Development and Review Department: M. Ahmed, Deputy Director; C. Aturupane, S. Dodzine, T. Dorsey, P. Gajdeczka, G.R. Kincaid, C. Lane, Y. Metzgen, H. Monroe, R. Price, L. Redifer, M. Said. Secretary's Department: A. Mountford, P. Ramlogan, T. Turner-Huggins. Statistics Department: P.L. Joyce, Deputy Director; C. Dziobek, S. Quin. Treasurer's Department: M.G. Kuhn, Deputy Treasurer. Western Hemisphere Department: M.E. Bonangelino, Deputy Director; L. Cardemil, C. Francis, A.M. Jul, F. van Beek. Office of the Managing Director: A. Bauer, S.B. Brown, C. Liuksila, P. McClellan, R. Moghadam, B. Potter, K. Wilairat. Advisors to Executive Directors: M.A. Ahmed, S.A. Bakhache, A. Baukol, M. Beauregard, S. Boitreaud, S.S. Farid, A. Fidjestøl, O.E. Garner, Liu F., F. Manno, M.F. Melhem, L. Palei, Y. Patel, H.E. Phang, F. Vermaeten, R. Villavicencio, P.H. Whitehall, M. Yanase. Assistants to Executive Directors: S. Alcaide, T. Belay, S. Boucher, N.J. Davidson, M. Di Maio, M. Faulend, F. Haupt, C. Josz, B. Kelmanson, T. Koranchelian, A. Maciá, R. Maino, M. Marques, P.A. Nijse, K.S. Oo, P.R.D. Prasad, K. Sakr, T. Segara, B. Siegenthaler, J. Sigurgeirsson, J. Sipko, A. Stuart, Tong Y., D. Vogel, D.B. Waluyo, E.S. Weisman, A.Y.T. Wong, J.Y. Yu, I. Zakharchenkov.

1. INTERNATIONAL MONETARY AND FINANCIAL COMMITTEE AND DEVELOPMENT COMMITTEE—SUPPORTING LOW-INCOME COUNTRIES IN LIGHT OF CHANGES IN WORLD ECONOMIC SITUATION—JOINT STATEMENT BY MANAGING DIRECTOR AND PRESIDENT OF WORLD BANK

Documents: Joint Statement of the Managing Director and the President of the World Bank to the International Monetary and Financial Committee (IMFC) and Development Committee (DC) on Supporting Low-Income Countries in Light of Changes in the World Economic Situation (SM/01/335, 11/9/01)

Staff: Ahmed, PDR; Dorsey, PDR

Discussion: 2 hours, 45 minutes

Mr. Yagi made the following statement:

I would like to thank the Managing Director for preparing the joint report with Mr. Wolfensohn. Before I go into the comments on the paper in detail, I would just comment on the financing side. According to the joint statement, it is urgently needed to procure the remaining PRGF resources, as they are SDR 0.7 - 1.2 billion short of reaching the full complement of SDR 4.5 billion in new resources needed for the years 2002 through 2005. Japan has been a major supporter of the ESAF/PRGF, both in financing the subsidies and especially in providing the largest share of the loan resources of the PRGF. The significant slowdown in world growth, coupled with the adverse effects of recent tragic events, is putting at risk the gains in economic performance made by many developing countries. My authorities have now decided to contribute US\$1 billion, or about SDR 0.77 billion, to the PRGF loan resources to fill the low-end of the gap. Our contribution would ensure financing for deserving low-income countries.

The Chairman welcomed Japan's contribution and, on behalf of the Board, thanked the Japanese authorities. He also appealed to other countries that had made pledges to contribute to the financing of the gap in the PRGF resources to speed up their decision-making process.

Mr. Shaalan made the following statement:

I would have liked to have started my statement by observing that the report before us was a good report, but I am afraid I cannot. I found the paper lacking in focus and not at all clear at the outset about the composition of the group of countries we are talking about. It is only after reading halfway through the report that one realizes we are talking about PRGF-supported countries. The reason I say that is, for instance, on paragraph 2, we are talking

about the closure of capital markets as something that has transpired in recent weeks, when capital markets are not of much consequence to PRGF-supported countries. So when we talk about low-income countries, we need to be clear what we are talking about.

There are three issues that need to be addressed. First, there is the question of trade, in two senses: one, the restrictions against exports—agricultural products and textiles—of developing countries to industrial countries, and two, reduced receipts from exports owing to the general economic slowdown and the decline in commodity prices.

The second point that we need to emphasize is the need for more timely concessional bilateral aid. In recent country papers, I have noticed that this was a common complaint. There is a need for more analysis on debt sustainability. We have to be more forthcoming. The events of September 11 are certainly going to change the debt sustainability situation of many of those countries. This is not highlighted sufficiently in this report.

The third point is the need for additional relief under the HIPC Initiative because of the exogenous shocks to these countries.

These are points that should be highlighted. They are mentioned in one way or another, but the paper is not focused enough to highlight them.

Other areas that need reconsideration: the growth forecast in this paper should be adjusted in view of the discussion on the *World Economic Outlook (WEO)*. There were objections raised with regard to the rosy projections for growth in low-income countries. We need to show that because the majority of countries are not covered by the statement that projects growth to be modestly lower this year than last year then, we continue to advise countries to adhere to existing adjustment policies in spite of the external shock. If that is the case, this will require additional financing, and we should put that case up front. This is not sufficiently highlighted in the paper. The paper should also highlight available resources under the GRA for Stand-By Arrangements. The general resources of the Fund could be made available, particularly since the SDR rate now is probably no more than 2 $\frac{1}{2}$ percent.

Mr. Barro Chambrier made the following statement:

I would like to welcome Mr. Yagi's statement and the Japanese contribution. I would like to thank him for bringing this news, and we hope that others will follow this example.

Mr. Shaalan has elaborated on some points that are useful. These could be included, especially the need to have more analysis on debt sustainability. I

would also like to add a note of caution with regard to the growth for the region. There are many uncertainties.

Overall, this statement gives a clear description of what the Fund and the World Bank are doing to assist low-income countries, provided that these countries make further adjustment, especially with regard to financial requirements.

A few brief comments. In the first paragraph, second to the last line, reference is made to the financial impact of recent events. I believe the impact is due to much more than recent events. It is due to the global slowdown that started before the events of September, and was exacerbated by those events.

I welcome the recognition that low-income countries are already implementing adjustment policies. The shock that they are experiencing now is exogenous—and this has to be emphasized—and will lead to major financial difficulties for many of them. Mr. Shaalan made a similar point. These countries now have increased financing needs, and I agree with the emphasis that should be put on this issue.

Third, we have the responsibility to ensure that our members implement macroeconomic adjustment policies. Hence, the Fund should appeal to those low-income countries with widespread poverty that do not have programs to strengthen their policies through appropriate adjustment programs so that the Fund can assist them in mobilizing financing. We need to maintain dialogue with those countries. We have to be cautious about exercising too much selectivity in determining the allocation of Fund resources, because there may be countries that are willing to make an effort but need to strengthen their capacity.

Fourth, for countries that do not qualify for the PRGF, and which have access to Stand-By Arrangements, it will be important that their debt problems be taken into consideration, and we come up with innovative solutions to assist those countries in mitigating the impact of the higher interest costs associated with the use of the Fund's general resources. Maybe a sentence to that effect will be helpful in the statement. There is a need to reassure the Fund's members that, once new financing needs have been identified, the Fund will move expeditiously to assist those countries. The timeframe of the Fund's reaction is not specific enough in the current draft of the statement.

Fifth, on financing requirements, in paragraph 6, I note that management expects to meet the financing needs with existing resources. However, I also note that this can be done only for one year. If the downturn is prolonged, or is much deeper, this may be a problem. I would therefore suggest that this statement put emphasis on the fact that there will be a need for additional resources to assist the low-income countries.

Finally, in paragraph 10, we have to be more cautious when we say that the need for debt relief under the enhanced HIPC Initiative may be modest and limited to a few cases. We should be prepared for the worst case scenario and be more cautious in the language.

Mr. Rustomjee made the following statement:

Introduction

I would like to thank the Managing Director for issuing the helpful statement, jointly with the President of the World Bank, in respect of support to low-income countries in light of changes in the world economic situation.

The statement will go a long way in helping allay concerns that may arise that the IMF and the World Bank may be excessively diverted away from the task of helping the low-income members, as a result of the 11th September terrorist attacks. These concerns are widespread in the low-income countries and it is important in our view that our institution remains cognizant of this, not only in approaching the IMFC and Development Committee meetings, but also in the period ahead.

We welcome the commitment in paragraph 5 of the document for our institution to stand ready to consider adjusting our existing financial instruments and modalities, if necessary, in light of future developments. We also welcome the call in paragraph 6 for urgent mobilization of the remaining PRGF resources; and also the reassurance provided in the same paragraph that notwithstanding the high anticipated level of demand for PRGF resources, these demands should be manageable within existing resources, if limited to one year. It might be helpful and possibly reassuring, if we were to add that we will continue to keep the matter under review. This may be particularly pertinent given the potential demand for a few high-access cases in the foreseeable future.

Areas For Further Improvement in the Text of the Document

We have a number of suggestions for further improvement of the proposed joint statement. Our comments can be divided into three broad sections. Firstly some suggestions for the addition of further information and commentary in the statement; secondly, some suggestions for modification of the existing text.

Potential Additions to the Statement

Regarding additions, we feel that there are a few missing components to the statement. Firstly, there is no mention of technical assistance. In our view, both the IMF and the World Bank will need to step up the provision of

technical assistance to the low-income countries, to help them overcome the adverse macroeconomic and other consequences of the likely pronounced global economic downturn. We see new and additional needs from these members emerging in three particular areas: firstly accentuated need for fiscal policy advice and technical support, as these members struggle to maintain their current fiscal projections and to correct for the inevitable fiscal slippages which may occur as a result of the downturn. Secondly, further assistance with financial sector reform, as the reforms to date have been nascent and we can expect substantial adverse consequences to arise to these financial systems as a result of the expected decline in capital flows, reduced interest in supporting domestic capital market development and weakening banking sectors, all brought on if there is a pronounced downturn in the global economy. Thirdly, technical assistance to support poverty reduction efforts will, in our view, need to be further bolstered, to avoid these members finding themselves losing hard-won ground through their recent significant reforms in public expenditure management and improvements in longer-term budgeting. As part of this, we express some concern about the impact of any pronounced downturn on the ongoing efforts to improve tracking systems for poverty-related spending, including spending of HIPC Initiative resources. We could add many other areas where we see an expected additional need for technical assistance, but the above three areas seem likely to be the most pressing in the period ahead, at least until some greater certainty has developed regarding the consequences of the global economic downturn for the low-income countries.

A second potential addition to the paper could be some discussion of our ongoing streamlining and refocusing of conditionality. Here it seems to us that important progress is being made, which will play an important role in mitigating some of the adverse consequences of recent events. We should be showcasing our achievements to date and expressing a determination to ensure that the promise of improved streamlining and refocusing will be carried through, particularly under the currently severely challenging circumstances for this category of countries. We can of course be careful in our language to avoid suggesting that we intend abandoning or softening conditionality, but some language to highlight our ongoing concern to ensure that our existing policy is being carried through would demonstrate sensitivity and would also enable us to showcase our achievements on this new policy approach.

A third addition would focus on our endorsement of the New Partnership for African Development (NPAD). Here we feel that particularly given the latest developments, we need to reaffirm and reiterate the endorsement and support of both the IMF and the World Bank to working with the African members to ensure that the promise offered by the NPAD is fulfilled. It would be important in any description to indicate that our endorsement goes beyond words and that we are looking forward to supporting this initiative, as it develops, with the full array of resources available to our institutions.

A fourth addition to the text could be to again showcase the important progress we have made, at least conceptually, in our agreement on the issue of protracted arrears cases, where we have indicated our willingness to try to identify solutions, on a case by case basis and as the individual members come up for Board discussion, to the problem of protracted arrears of a few members.

Potential Modifications to the Statement

Regarding modifications to the existing document, we have several suggestions:

First, as regards paragraph 3, we feel that the qualification regarding agricultural prices in low-income countries as continuing to be distorted through production and export subsidies is excessively one-sided. We could only accept this qualification if the enormously greater protection of agricultural products in industrial countries were to be included and given a commensurate level of weight in the description of the extent of these subsidies. In practice, the extent of these barriers in the advanced countries dwarfs not only the size of agricultural subsidies in the low-income countries, but even outstrips the value of ODA to these countries. Greater balance and sensitivity to this huge and inappropriate level of protection is called for.

Second, regarding paragraph 4, we suggest that the argument that the external financing needs positions of low-income countries “can” be hit disproportionately hard is too weak. There is absolutely no doubt in the minds of policymakers in these countries that their financing needs will be enormously circumscribed by recent developments. There is no need to be timid about our judgment on this. We would suggest replacing the word “can” with “are being”.

Still on paragraph 4, we believe that it would be appropriate to qualify the assessment that the average impact of the negative effect of the recent developments is approximately one percentage point of GDP. We believe that the impact will be substantially greater; a dramatic decline in key export sectors is already taking place in many of these countries, particularly those which are strongly reliant on single commodity exports. At the least, we should qualify this assessment with an indication that the assessment is based on the current available information, and that it is to be updated regularly as new information becomes available.

Regarding paragraph 7, it appears that there may be a word missing in the fourth line, between the words “existing” and “and”.

In regard to paragraph 11, we appreciate the recognition at the end of the paragraph that preliminary staff estimates suggest that the need for

additional debt relief under the enhanced HIPC Initiative may be modest and limited to a few cases. We would nevertheless suggest adding that we will continue to keep the situation under review. The recent case of Ethiopia, in which additional relief of about US\$200 million became necessary due, *inter alia* to the decline in the discount rate used to calculate the NPV of that member's debt is a case in point and we believe that it would be advisable, without giving anything away, to reflect a more cautious stance on this issue.

With regard to paragraph 12, we have two comments. First, regarding the use of the words "maintaining momentum" in the first line, we agree that this would be an important first step. However from a low-income country perspective, it would have been preferable to reflect the view that the various industrial country initiatives should be expanded. Secondly, we are not clear what is meant by "resuming progress toward meeting" the UN ODA goals. In our view, these objectives should be met.

The second-last line of paragraph 13 discusses the use of "new" resources. In our view, the our tracking of poverty expenditure discussion earlier this year took the view, supported by all members, that all resources should be more effectively utilized. Clearly while all resources should not be used for poverty reduction alone, we wonder whether the use of the word "new" may not send a confusing signal, especially to the donor community.

Finally regarding paragraph 14, at the end of the second last line, after the word PRGF, we would propose adding a sentence which highlights that the review of initial experience with the PRGF will also (like the PRSP review) be conducted through a broad consultative process including the participation of the PRGF-eligible countries themselves.

In conclusion, we welcome the joint statement and view it as an important reaffirmation of the importance our institution attaches to the severe plight of the low-income countries.

The Chairman said that the joint statement presented an opportunity to outline poverty-reduction strategies in a comprehensive manner. However, poverty-reduction was based on two pillars: the authorities' own efforts and the response of the international community. The proposals should be balanced by including the various issues pertaining to the two pillars.

Mr. von Kleist made the following statement:

The specific focus on low-income countries during the upcoming meetings in Ottawa is necessary and appropriate. The very welcome joint statement by the Managing Director and the President of the World Bank emphasizes the need for continuous and—in some exceptional cases—additional support for low-income countries. Many of the points raised by

Mr. Shaalan, Mr. Barro Chambrier and Mr. Rustomjee warrant attention and meaningful and well-prepared discussion in this Board. Many of the changes suggested for the statement would, however, seem to assume that the Board has already reached final conclusions on many of the issues. To the contrary, many of the questions are still open and we should not overburden the common statement. I especially welcome the additional remarks you just made, Mr. Chairman. Since I share the thrust of the common statement, I just want to make three comments:

The last sentence of paragraph 4 refers to “additional external financing on appropriate terms.” Additional financing on appropriate terms is certainly a good thing; however, considering the current squeeze in budgets of most traditional donor countries, this sentence should also refer to financing constraints, to avoid raising false expectations. This is highlighted by the fact that in para. 6 referral is made to the still existing financing gap of the interim PRGF. Further “additional” financing over and above currently planned PRGF support may thus be hard to come by.

In para. 5, the common statement announces that the Fund will be ready to consider adjusting its existing financial instruments and modalities, if necessary, in light of future developments. In one sense, this is what the Fund has always done and the statement is therefore quite obvious. In another sense, again, this wording could raise false expectations about “additional” financing over and above the currently available means. Also, considering the quite recent streamlining of facilities, it is questionable whether a debate about “adjusting existing financial instruments and modalities” should be started in Ottawa without pressing need.

In the first sentence of para. 10, the wording goes beyond what the Board discussed and agreed on during our discussion on September 12 this year. I would suggest using the wording of the summing up of the discussion on the Enhanced HIPC Initiative—Completion Point Considerations and I quote: “Additional HIPC Initiative debt relief could be considered only in exceptional circumstances when there are fundamental changes in a country’s circumstances due to exogenous factors.”

Notwithstanding these comments, I would like to thank the Managing Director and the President of the World Bank for keeping the focus of our attention also on our poorest members, to make sure they are not overlooked or “marginalized” in these turbulent times.

The Chairman said that, in the face of the global slowdown, the Fund should demonstrate utmost flexibility and be forthcoming in responding to the challenges facing low-income countries with concrete actions. Despite financial constraints in advanced countries, Directors from those countries should provide the managements and staffs of the Fund and the World Bank concrete room for maneuver.

Mr. Padoan made the following statement:

At the outset, let me state that we support the joint statement of the Managing Director and the President of the World Bank. Low-income countries may be particularly vulnerable to the high uncertainty in the world economy. This calls for a coordinated effort such that:

(1) The Fund will stand ready to meet additional financing demands when this is consistent with the Fund's financial policy. Indeed, the Fund may rely on the Compensatory Financing Facility for those countries experiencing a temporary export shortfall. For eligible countries, PRGF resources are available. In this regard, we support the view to mobilize the remaining PRGF resources to reach the full complement of SDR 4-4.5 billion in new loan resources needed for the years 2002-2005.

(2) Low-income countries should not deviate from the aim of pursuing sound and sustainable policies, especially at the present juncture when their economies may be more vulnerable. As for the countries under the Enhanced HIPC Initiative, the current framework already envisages the possibility of considering additional financing at the completion point if there has been a fundamental change in a country's economic circumstances due to exogenous developments.

(3) However, long-term debt sustainability is only a necessary condition for ensuring adequate growth prospects in low-income countries. To this purpose, industrial countries should complement these efforts by improving the access to their markets by the poorest countries. In this regard, the launching of a new trade round would be particularly important and we hope that significant steps toward this goal will be made in the meetings currently taking place at Doha.

The Chairman hoped that other Directors would support Mr. Padoan's point on the importance of trade liberalization. Continued barriers in advanced economies—especially the European Union and the United States—to developing countries' products—especially agricultural products—would not be helpful. The joint statement should stress that point clearly.

Mr. Daïri made the following statement:

I thank the Managing Director and the President of the World Bank for this statement. I find it well-focused and helpful. I agree with the Managing Director that now is not the opportunity to revisit our policies, but at this juncture, we need to send a strong signal that the IMF and the World Bank are mindful of the situation of countries, particularly low-income countries, which are taking the necessary measures to face these exceptional circumstances.

I found many of the comments made by Mr. Shaalan, Mr. Barro Chambrier, and Mr. Rustomjee helpful, and I would particularly support those aimed at clarifying or giving more focus on some of the issues referred to in the joint statement. I agree with Mr. Rustomjee that some reference to the issues of technical assistance and the situation of countries in arrears may be warranted.

The message in this paper regarding the situation of low-income countries should be made consistent with the discussion on the *WEO*. For example, the joint statement says that real GDP for low-income countries is projected to continue to increase for the group as a whole at somewhat lower rates, whereas in the *WEO*, growth is projected to increase faster than in 2000.

Also, on paragraph 4, there is reference to the dual pillars of macroeconomic adjustment on the one hand and financing on the other hand. There is a need for clarification because if continuing these programs under the current international environment leads to a further dampening of economic activity in these countries, then these programs should be reviewed. We should also see how much additional financing can be secured to buck a strengthening of policies.

I welcome the Managing Director's indication that the Fund would be prepared to consider adjusting existing financial instruments and modalities. Of course, this will be done at the Board level, but the direction that he gives here is extremely important and helpful and shows a strong flexibility, which is exactly what is needed at this particular juncture. It is important that access to Stand-By Arrangements or CFF programs for low-income countries be combined with additional support from bilateral donors, as resources under a Stand-By Arrangement or the CFF are nonconcessional. It is important not to create additional strains on debt sustainability. It would be necessary to make a call for some form of support from bilateral donors for low-income countries.

I join other Directors in welcoming and thanking the Japanese authorities' decision, which is very helpful at this particular juncture, and I strongly urge other countries to follow in this direction.

The reference to operations of the Bank on emerging countries faced with a sharp increase in the number of refugees is also important. I encourage management to look at what the Fund can do in this area. There is also a need to ensure a broader international response, as put forward in the statement, to ensure that the regional development banks that may need to step in and increase their involvement, either in terms of concessional financing or in terms of debt relief, be supported and have adequate financing from their shareholders.

I support the message in the statement regarding the WTO and the new round of negotiations launched in Doha, including some clarifications as proposed by Mr. Padoan.

Finally, on the Financing for Development event, I would encourage broadening the issue not to make it only a matter of domestic policies on the one hand, and international support to these countries on the other hand. It is also important to create a more enabling environment for all countries to reap the benefits of globalization. This would mean more than just direct assistance to these countries, but also international cooperation, including in trade investment.

Mr. Quarles made the following statement:

At the outset, I would like to thank you for the joint statement on what will be a very important part of the discussion at the IMFC meeting this weekend. As has already been stated—but which I definitely want to support—it is true that many of us have been focused on the synchronized slowdown in the advanced economies, and it is important that we not lose focus on the further development of the low-income countries, and equally important that we not be perceived to have lost our focus on, or to be distracted from, what we are doing for low-income countries.

That said, the IMFC and DC discussions this weekend should not be based on an overly negative assessment of the current situation. We cannot be looking at the situation through rose-colored glasses, but at the same time we cannot look at it through ash-colored glasses either. While many low-income countries are facing difficult economic choices, growth prospects for a number of low-income countries are not significantly worse than they have been in recent years, as evidenced by the higher projected growth rates in Africa and the HIPC Initiative countries. On balance, it is difficult to judge whether 2002 will be a year of additional hardship or a year of some recovery. Hence, some of the language in the draft report appears overly pessimistic. As an example, there is the reference in paragraph 4 saying that these countries were in a precarious situation to begin with.

Next, the joint statement correctly indicates that the first line of defense for low-income countries is strong domestic economic policies. Given the slowdown in growth in the advanced countries and the flight to quality among investors, the developing countries that implement strong policies will be best suited to attract new financing, use domestic and foreign sources of funds most effectively, and protect the poorer members of their societies. The Fund and the Bank have an important role to play in helping countries design strong policies and strengthen their ability to implement them. I can certainly support Mr. Rustomjee's call for specific discussion of additional technical assistance in that regard, and the Fund and the Bank can

help provide funds as needed to help close financing gaps. The existing instruments, including policy advice and surveillance, at both institutions, appear to us to be adequate to respond to the situation at this time.

The joint statement notes that the Fund and the Bank are ready to review and augment resources as needed, including concessional resources. Japan's announcement today is most welcome. We would suggest perhaps adding a phrase in paragraph 5 indicating that augmentation is in support of strong economic policies.

The joint statement says that concessional financing to low-income countries from both the Fund and the Bank is likely to rise next year by a fairly significant amount. In that connection, Japan's announcement is helpful. I would be interested to get an update from the staff as to whether, in light of that addition and in light of the expected demands next year, the PRGF Trust is likely to have enough resources to cover the potentially large demands on it in the near term, and the possible augmentation of existing programs.

We do have a concern about the treatment of additional lending to the HIPC Initiative countries. The statement notes that additional debt relief may be needed at the completion point for a few HIPC Initiative countries if external events cause economic conditions to deteriorate. We would support Mr. Padoan's call for improved debt sustainability analysis. It has appeared to this chair that in some cases the sustainability analysis at the outset was perhaps overly optimistic. But the implication that more debt relief may be needed suggests that strong debt management principles need to be considered now, and we think that that should be reflected in the joint statement as well.

If a country takes on additional debt between the decision point and the completion point, it should be based on strong evidence that the underlying project financed by the debt will provide more than enough resources to pay the debt service. That debt would not require additional debt forgiveness at the completion point even if the debt level rises above the HIPC Initiative threshold. This point provides further evidence of the need for additional grant financing for those countries, which is something for which we have been strongly calling.

The joint statement indicates that the Fund/Bank's approach needs to be part of a broader international response, including progress on a new trade round. We have had discussion of some of the specifics of that today. We agree.

We would emphasize that further trade liberalization in the advanced middle-income, and developing countries is needed to make this a success. We believe we have been doing our part: there is the U.S. African Growth

and Opportunity Act effort and the Caribbean Basin Initiative to open up U.S. markets to countries from these areas. But again, we have to look at things as they are, and it remains true that most gains from trade for developing countries would come from liberalization of their own trade regimes—without wishing to detract at all from the points that have been discussed here about the trade stance in the advanced countries.

Finally, we support language in the statement that looks forward to implementation and review of the PRSP-PRGF process. This initiative can only be successful if low-income countries are provided the right incentives and capacity to follow through on implementation of the PRSPs and the PRGF-supported programs.

The Chairman wondered whether the world market share of U.S. cotton had increased to more than 30 percent, while that of African cotton decreased. The world price of cotton had dropped from around 80 cents per kilo to 40 cents per kilo, which threatened the survival of cotton farmers in Africa. Meanwhile, cotton prices in the United States had been stable or rising, distorted by the subsidies for U.S. cotton farmers. The seriousness about trade liberalization was put into question if the subsidies in the advanced countries—which amounted to \$1 billion a day for the OECD countries—remained.

Mr. Quarles acknowledged that the presence of agricultural subsidies in the United States and in Europe did not give the authorities of those countries the strongest position of moral authority in calling for trade liberalization in developing countries. The current U.S. administration, while having to deal with the political difficulties in this context, was not receptive to the idea of subsidies as a matter of ideology. This did not imply, however, that there would likely be any sort of near-term policy change. Nonetheless, the point remained that developing countries should not hold back on their own trade liberalization efforts. The benefits of trade liberalization in developing countries were greater than would be achieved if the distortive trade policies in the advanced countries were removed. Moreover, liberalizing developing countries' own trade regimes, even in the absence of policy change in the advanced countries, would put greater pressure on the latter to do the right thing from a moral point of view.

Mr. Barro Chambrier thanked Mr. Quarles for recognizing the contradiction in calling for greater trade liberalization while at the same time maintaining the high level of subsidies in the cotton sector. Some developing countries, however, had been liberalizing their trade regimes, and it was difficult to give the message to producers in these countries, who were already facing reduced margins or losses, that their countries needed to open up further. The U.S. and E.U. authorities must be urged to eliminate their subsidies.

Mr. Quarles said that he agreed with Mr. Barro Chambrier up to a point. It should be recalled that the subsidies in the advanced countries were not the principal cause of the decline in cotton prices. There had been increased production, not just because of the subsidies in the advanced countries, but because of improved technology and the new areas in Brazil and Turkey that had been opened up to cotton production. The strength of the U.S.

dollar had also been encouraging production in countries whose currencies had depreciated. It would be deceiving to think that, if the subsidies were to be eliminated immediately, the situation in developing countries that produce those commodities would substantially improve.

Mr. Daïri agreed with Mr. Quarles that developing countries would benefit from liberalizing their own trade regimes. However, it was ironic that the Fund had instruments for poverty reduction—the HIPC Initiative and PRGF—yet its efforts could be largely negated by policies of some member countries. The joint statement should have a stronger language regarding distortions stemming from agricultural price subsidies in advanced economies.

Mr. Pickford also agreed with Mr. Quarles that unilateral liberalization was good for any country. However, the focus of the joint statement should be on the question of market access. Studies had shown fairly conclusively that a favorable trade round with significantly improved market access in industrialized countries for developing country exports could be the single most important step toward reducing poverty. That message should not be diluted. The United Kingdom should play its part.

Mr. Kelkar made the following statement:

I agree with Mr. Pickford that not only is liberalization the first-best policy but, to make it politically acceptable, it is important that every country liberalize its trade regime. We should emphasize this.

Let me thank the Managing Director and the President of the World Bank for this excellent paper. I also take this opportunity to thank Mr. Yagi and the Japanese authorities for their generous contribution, which could be appropriately recognized in paragraph 6 of the joint statement.

I also agree with paragraph 4 about the additional external financing being requested. I believe that the Managing Director will link this proposal to the general policies on global account measures because this additional financing will generate demand and will support the needed countercyclical measures. One can support this strategy given the excess capacity in the world economy. The additional resources can become part of a global countercyclical strategy, and should be strengthened and linked with the measures proposed in the first agenda item.

I also want to welcome paragraph 5 where the Managing Director has indicated a willingness to be flexible with Fund policy, such as those on access. I thank you for this proactive aspect of your statement. I also agree with Mr. Shaalan's comment about the urgent need to review the debt sustainability analyses because of the overly optimistic projections. It has been said that we do a disservice to some countries because we underestimated the sustainability requirement.

We could probably mention the importance of approving the Fourth Amendment on the one-time special SDR allocation. A new SDR allocation can provide further resources for the PRGF.

I agree that the Board should perhaps mention again the two-pillar strategy. It is important to point out that it will require policy augmentation in developing countries, as well as in developed countries. It does not mean that the developing countries have to make larger sacrifices.

On trade policy issues, I agree with what has been said, but also wish to emphasize that the Fund should give importance to trade liberalization on a multilateral basis because of the tendency for trade-distorting preferences. They may look attractive in the short run, but they make the trade system more discriminatory and less transparent. A number of countries suffer because of this.

Finally, perhaps the joint statement could mention that the international community, including the Fund and the Bank, is prepared to work actively in the reconstruction of Afghanistan, as soon as normalcy returns to that country.

Mr. Duquesne made the following statement:

I welcome this joint statement and the current work undertaken by the Fund and the Bank to assess, on a case-by-case basis, the economic impact of recent events, especially for low-income countries. In times of great uncertainties, the value of the Bretton Woods institutions can be measured by the attention granted to their weakest members. I therefore welcome your continued commitment—and that of the President of the Bank—to the situation of our poorest members. I am also favorably impressed by what you said a moment ago on the necessity of avoiding being bureaucratic and rigid in certain situations.

I agree with the diagnosis on the economic outlook on low-income countries. They cannot be isolated from the general worsening of the international outlook. The various channels identified in this paper—lower global demand, downward trends for commodity prices and declines in tourist receipts, to cite but a few negative factors—create an unfavorable prospect for growth in many low-income countries.

But having said that, let me repeat that we share the concerns just mentioned by Mr. Quarles to avoid being too pessimistic—at least for western countries—not as an argument against increased support for poor countries, but to avoid self-fulfilling prophecies.

As far as African or HIPC Initiative countries are concerned, I agree with the paper's assessment that the external financing position of the poorest members may be more dramatically hurt by the global slowdown than anticipated.

Coming now to the different proposals deriving from such a bleak outlook, it seems to me that the responses that are identified in this paper are broadly appropriate. Let me stress four points. One, the need for mobilization of Fund resources available under the PRGF, Stand-By Arrangements, and the CFF, as stated in paragraph 5. An increase in oil prices should also qualify under the new window referred to in the Managing Director's statement of October 5.

Two, the importance of securing the full complement in new loan resources for the PRGF Trust, as noted in paragraph 6, which is now a matter of extreme urgency, considering the potentially fast depletion of PRGF Trust resources. Like others, I welcome the announcement made by Mr. Yagi at the beginning of the meeting.

Three, use the margin for flexibility contained in this initiative primarily through increased interim debt relief but also for possible topping of assistance at the completion point under the HIPC Initiative. Should circumstances warrant additional help—and it is hard to deny that the September 11 events represented a major external shock—I see a lot of merit in reassessing in detail the debt sustainability analysis for each HIPC Initiative country that reaches its completion point.

Four, on IDA, paragraph 8, let me just stress—and perhaps this could be referred to in the paper—that the question of proportion of grants should not prevent the conclusion of the negotiation in December 2001. Hence, I urge all my fellow donors to be flexible on that.

Three points should probably be given more attention. The first one is technical assistance. I share what was said by Mr. Rustomjee. The second is social safety nets, which is something nearly forgotten in the paper. Renewed emphasis on the definition and implementation of meaningful social safety nets is indispensable in the framework of the PRSPs. The third, on trade liberalization: one, we shall see what the outcome of Doha will be; two, let me recall the E.U. initiative of "Everything but Arms"; and three, let me recall the proposition made by Mr. Fabius in the Spring regarding the creation of a new facility. This may be a way to reconcile the opposite ideas that were given.

Finally, more broadly, and beyond the IFI's role, I support the call for progress to increase ODA. The upcoming IMFC meeting will probably constitute a defining moment for the international community to reiterate this call.

Mr. Duquesne agreed with the Chairman that the Paris Club should also be included in the call for increased ODA.

Mr. Pickford made the following statement:

There are many good points in this paper. Mr. Shaalan was a little unkind at the start to say this lacked focus. Most of the messages that he wanted to include are actually there in one form or another: the messages on trade, on the outlook for debt sustainability, the issues of exogenous shocks and whether the outlook for developing countries is overly optimistic. Nonetheless, as a matter of nuance, it may be possible to strengthen these messages somewhat. The paper is good because it identifies a problem that the poorest countries are facing, and recognizes that there needs to be a coordinated and systematic response from the international community.

On the issue of whether the paper is too rosy on the outlook, the statement notes the impact of the September 11 events and the global slowdown, which had been in progress even before then. The impact will vary widely across countries, and it is correct that we be not overly optimistic in that assessment nor be too limited in our response. There was reasonably general agreement that perhaps there was a case for thinking that at least for some of the countries, the outlook will be significantly worse than implied. The point that a number of African countries are actually doing better than we had expected because they are no longer mired in conflict should not detract from the fact that, as you said, commodity prices and the global slowdown will impact many of these countries severely.

We should take this very seriously because there is good evidence to show that if there is a shock to countries' systems, it takes a long time to recover, and taking action to offset some of the impact is well worth doing.

The paper is good in terms of the response of the Fund, and it is right to draw attention to the fact that we can and should reassess financing needs and be prepared to augment access as and when necessary. This will lead on to the need for a careful discussion of how any additional financing gaps are filled and the implications for new debt for countries. We will need to be careful in our analysis of debt sustainability.

It does raise issues about whether there are sufficient concessional resources. In that regard, Mr. Yagi's announcement is extremely helpful. The PRGF Trust needs to cover the subsidy element as well because if there are significant needs, we are going to have to do what we can to address those needs.

In paragraph 5, there is reference to the Fund having reviewed its existing financial instruments and modalities, and finding them adequate. If there is any background information underlying that, it would be helpful to

see that because I do not remember seeing such an assessment. The point that Mr. Rustomjee makes about technical assistance is also quite right, and I would endorse what Mr. Duquesne said in terms of not losing focus on social safety nets, and indeed the general point that countries need to maintain their pro-poor spending.

On the way forward, it is helpful to think now of having regular reporting to the Board on the way in which the Fund is responding to these challenges. Progress reports that identify where augmentation or alterations of plans have been made will be helpful because this is an issue which will be on people's minds.

Finally, on the issue of the HIPC Initiative countries, the paper notes that many countries are now more vulnerable because of their debt burdens, which are probably now more unsustainable. It identifies two existing mechanisms within the HIPC Initiative. One is interim relief and the other is a possible topping up. Interim relief still has problems, not on the part of the Fund or the Bank, but on the donors because not all of them are committed to or engaged in process—not even all of the multilateral institutions. Hence, we need to provide the usual word of caution about wanting or urging others to be part of that process.

On the issue of topping up, our views are pretty well known. But I do want to just reemphasize that we almost certainly are in exceptional territory; we will need to assess this on a case-by-case basis. Doubtless, there has been a fundamental exogenous shock, and this implies that, when we get to cases where completion point DSAs are being reassessed, we would anticipate wanting to see a response from the Fund and the Bank which is both proactive and flexible.

Mr. Daïri said that it was important to refer in the paper to the importance of maintaining and strengthening institutional capacity in developing countries under certain circumstances because any weakening will result in significant delays in achieving poverty-reduction objectives.

Mr. Junguito made the following statement:

We would like to support the proposed joint statement and some of the amendments suggested by our colleagues, especially from the African chairs. We would like to refer only to one point, which is the commodity issue. We are particularly happy that for the first time, the issue of declining commodity prices is being directly addressed as a basic problem.

The issue that we would like to see resolved, given that this is a joint statement of the World Bank and the Fund, is that there is recognition of the commodity price problem but there is no way forward or direct solutions

proposed. I understand there is a World Bank working group on commodities. No reference is made here on the findings of that working group. We have the CFF as a possible mode of assistance in case of temporary shortfalls in export receipts, but how the Fund can act in the case of price declines for big commodities is not dealt with. In all the programs that have come before the Board—for African countries and for Latin American countries—we have seen that countries and governments have been forced to provide substantial support to commodity producers. If from this meeting a statement comes out indicating action by the Fund and the Bank toward directly addressing the commodity price issue, that statement would be acceptable. Both from the economic and political points of view, the commodity issue is very important.

I am especially glad of the Managing Director's concern on the issue of commodity prices, of which the staff and the Board should be more conscious.

Mr. Wei made the following statement:

We welcome the joint statement on supporting low-income countries in view of the changes in the world economic situation. We also appreciate the Japanese authorities' generous contributions which will help in narrowing the financing gap. We encourage those industrial countries which have not yet done so to make serious efforts to do.

I also agree with you that the two-pillar approach should be pursued on this matter. However, in a globalized environment, the reality is that poor countries depend heavily on their exports to industrial countries. Therefore, I share your views and those of Mr. Barro Chambrier, Mr. Daïri, Mr. Kelkar and others on the issue of trade. I especially share their sentiment that trade liberalization should be pursued symmetrically, by both the developing and industrial countries. I remember that ODA per year is approximately \$58 billion—far below the subsidies made by OECD countries. Low-income developing countries and middle-income countries will benefit significantly from the industrial countries' trade liberalization measures. I believe that this point should be highlighted in the joint statement.

Mr. Yagi observed that, of the two pillars of poverty-reduction, the one pertaining to financing support always seemed to lag.

As Mr. Padoan said, there is a lot of uncertainty, and so it is too early to consider any new or additional approach to be translated in a systematic manner. It is desirable to have concrete room for maneuver, but if we consider the present situation, we should not unduly raise expectations.

Mr. Callaghan made the following statement:

Mr. Quarles and Mr. Duquesne raised the issue about whether the statement is perhaps a little too pessimistic. I come out on the side of Mr. Shaalan here and it is reflected in the statement that some of the low-income countries will be very significantly adversely affected by developments, particularly those that are exposed to commodity prices and tourism.

The other point, though, is that some of the low-income countries will not be significantly affected by the slowdown in the world economy, and unfortunately they will not be significantly affected because they haven't been integrated into the world economy. They had been missing out from the benefits of the growth in the world economy and they have been marginalized. The biggest interruption they are likely to face is an interruption in donor support and financing. I would be a bit like Mr. Shaalan, strengthening the very significant adverse impact that some countries may be facing, and they are the ones that the Fund will have to respond to.

In terms of that response in paragraph 5, the concern I had with paragraph 5 was that the statement there saying that the Fund will be ready to consider adjusting its facilities, if necessary, in the light of future developments, unfortunately has the flavor of the type of statement you want to make when you do not want to announce anything, you normally say we have the matter under review. So I welcome very much the comments you mentioned earlier, Mr. Chairman, about saying that you want to have something more tangible, something more definite. Now, it is hard to know exactly what that is going to be. Obviously one thing that is important is the speed with which we review these things. The concern is that it might be too slow in terms of the nature of our review. I also welcome what you mentioned earlier about not wanting to be too bureaucratic because that can be a concern—the speed with which we review programs and establish new facilities can be very slow and varies across members.

Mr. Pickford raised a point that it would be a stronger statement if we could identify some concrete action that had been undertaken, that would be very welcome, and perhaps even if we can identify that we are being very proactive with our members in looking at the facilities and looking at their needs.

I would also strongly welcome the comments that have been made about technical assistance and strengthening the references there.

On the question of trade, certainly there is no question we should be endorsing very strongly that one of the most effective contributions we can make to the low-income countries is by removing the barriers on the products

that they trade and also removing the subsidies, and on this question — and certainly we can also note that it does not diminish the message that they should be similarly reducing their barriers to trade. We can also make the point that some of the biggest beneficiaries of enhanced round of trade liberalization and reducing the barriers on agricultural products are the developed countries themselves. It is good for everyone. It is a win-win situation. We can be emphasizing that, even in this comment, even in this paper on the low-income countries.

Mr. Fenton made the following statement:

Like others, I welcome Mr. Yagi's announcement. I would also like to thank the Managing Director and the President of the World Bank for this paper. We are in broad agreement with its contents. I do agree, however, with the comments made by Mr. Padoan and Mr. Pickford on the need to strengthen the sections of the paper dealing with trade liberalization and market access. I would also like to associate myself with the comments of Mr. Pickford on topping up and on interim relief for HIPC Initiative countries, and with the comments of Mr. Callaghan on paragraph 5.

Mr. Cippà made the following statement:

First of all, I would like to welcome the announcement made by Mr. Yagi on the additional financing provided by Japan. I also welcome the Managing Director's statement, and I can agree with it in broad terms. I also agree with your call that we probably need more action and less bureaucracy. However, and referring to what Mr. von Kleist said, this is not necessarily inconsistent with the comprehensive discussion in this Board. We have to be careful that in the concessional lending business, ownership, especially on the side of donors, is important, and we should provide the forum in which these difficult issues can be discussed and solved. We should speed up our actions to the extent possible.

On the issue of commodity prices, I agree that subsidies are distortionary and quite harmful for poor countries. I believe, like Mr. Pickford, that we should strongly emphasize this message in the next IMFC meeting. However, to be realistic, I do not foresee exactly what our impact will be on this political reality. So perhaps we should focus on what the Fund can do in order to compensate somewhat for this situation. Changing the situation is probably a more long-term issue.

The Managing Director is asking for concrete actions, and I have one proposal. When discussing the HIPC Initiative, I agree with the message that additional debt relief might be warranted, and with the guiding principle in the statement that we have to bring down the debt burdens of poor countries to sustainable levels. This implies that we should accept that, with the

deterioration of the global economy, more countries have probably become eligible for HIPC Initiative debt relief. Unfortunately we keep ignoring this fact, which is not only detrimental for these countries, but also goes against the principle of equality of treatment that should guide the Fund's activities.

Mr. Kiekens made the following statement:

How do we reconcile the observation of Mr. Pickford that the joint statement has everything in it and Mr. Shaalan's complaint that it is not focused? The answer is that the statement indeed has everything in it, but it lacks concrete proposals for action—and the Managing Director recognizes this by calling on Directors for concrete actions.

One of the most important tasks and contributions of the Fund to the global public good is to be the most efficient instrument of global solidarity. How can we achieve that? By two features that I call rational compassion. This also provides the two actions we need to pursue. Rational, by giving sharp analysis of what is wrong and what needs to be adjusted. Mr. Cippà was wondering what your message on international trade and commodity prices would mean in reality. He was very skeptical. He said perhaps not much, but we should make the statement. Well, what we need to do is to have sharp analysis that calls on the public opinion in advanced countries so that politicians over time have the basis to move toward the direction that we all want to go. Therefore, the Fund, the World Bank, and the WTO must come together and provide the general public with good analysis.

Then, we need solidarity, and we know that the PRGF and the IDA are channels for giving financial support. It is stated in paragraph 5 that the Fund stands ready to give more financing. Here again when we look at it rationally—are the conditions fulfilled and can we do it? I come to the conclusion that perhaps not, because we need to be sure that we will not add to unsustainable debts by giving more loans. I come more and more to the conclusion that the conditionality we traditionally ask in policy adjustments from the beneficiary countries is not enough. We also need action on the part of other partners in the trading system. When we see that international trade is distorted and undermines the financial position of developing countries, then we have no sound basis for new lending until other countries in the system also adjust their policies. This is the message we have to give.

Second, we made at the start of the year an analysis of what is required for debt sustainability after the HIPC Initiative completion point, and we have made clear conclusions. These countries need to grow faster, their shares in international exports need to double, and there is a need for more ODA. World Bank and Fund staffs, in preparation for the Development Committee meeting, have issued a very good paper showing that in order to achieve the Millennium Development Goals for 2015, we need about \$50 billion more in

ODA. Several Directors from advanced countries in the World Bank Board have complained that the staffs did not sufficiently refine their estimate. It shows that, in order for us to be the most efficient instrument of global solidarity, we need the best possible rational analysis.

Let me go further on solidarity. The joint statement proposes to increase, if necessary, and in individual cases, the PRGF loans next year for a total amount of as much as \$1.5–2 billion. That is fine with us. It is the duty of the Fund to extend financial assistance when the conditions are justified. I welcome the Japanese decision to provide the principal amounts. But what is lacking is the subsidy component, and I tend to disagree with the preliminary conclusion that if this increase only lasts for one year, it would be manageable. We may be being complacent. We have made it clear that the interim PRGF, at the minimum, needs \$1 billion for the four years of the interim period, and we know that after that, the requirement will drop to \$600 million a year. If next year additional loans amount to \$1 billion, we simply need the resources for that. When the World Bank was confronted with a similar situation in the past when the IDA ran out of resources, it did not scale back its lending. What was necessary was for creditor countries to be committed to funding the IDA up to such an amount required by its objectives. The same should be true for the PRGF. If we decide that we need to fund \$2 billion loans next year, the right answer is to call for more subsidy resources now at the IMFC meeting. Otherwise, the Fund would not be living up to its fiduciary obligations.

The Chairman said that he would call on the Fund's members to ensure that the PRGF Trust would have sufficient resources.

Mr. Barro Chambrier said that he agreed with Mr. Kiekens's remarks on the subsidy element and on ODA. The language in the statement should be made stronger.

Mr. Zoccali made the following statement:

I thank the Managing Director for this statement. It touches on the relevant issues. However, with regard to the tone, I agree with Mr. Shaalan, Mr. Callaghan, Mr. Kelkar and other Directors. It is important not to understate the impact of the comparative dynamics of the process, and the Managing Director does recognize appropriately that the consequences are serious. References to the average impact on the external accounts of low-income countries may be counterproductive, as they tend to understate the situation. Averages, as you know, are smoothing techniques. We might not be giving the right tone of what might happen. In this regard I welcome the approach in the report that the IFIs need to be more proactive in their response. Mr. Callaghan has put the accent on where it is needed: concrete action at this stage might be premature, but the speed of the review is

essential, and here I am sure that the Fund will move quickly in the circumstances.

On specific issues, paragraph 8, which reflects on the World Bank's significant incremental needs during IDA 13, focuses on two regions. I must say that given the three issues that were underscored in terms of vulnerability, and the fact that there have been some substantial natural disasters impacting Latin America, we were rather surprised by the exclusion of the region from the potential countries needing increased IDA resources.

On debt sustainability, I must say that we need to be more forthcoming in the analysis. We are rather tentative in paragraph 10 and in the conclusion that there may be a need for additional relief under the enhanced HIPC Initiative that is modest and limited to a few cases. Given the examples that were given of Mali and other countries, saying that the staff stand ready to analyze the impact of recent events on each country also suggests a tentative approach. In cases where we know that the impact is significant, we should already be analyzing the impact of the exogenous shocks.

I cannot underscore the importance given to free trade and to removing the barriers that distort the allocation of resources. The increased volatility in commodity prices could make entire sectors in developing countries collapse. We cannot understate the importance of sound domestic policies. I would also share and support the need to include relevant technical assistance.

Finally, the need for interim debt relief and additional assistance at the completion point are concrete policy responses that need to be taken on board. Also, in the context of interim responses, a closer coordination and linkage between market access and the provision of financing needs to be incorporated, as Mr. Padoan has suggested.

Mr. Al-Turki made the following statement:

I join other Directors in thanking the Managing Director for the statement prepared jointly with the president of the World Bank on issues facing low-income countries. I agree with most of the comments raised by previous Directors to enhance the presentation of the statement—Mr. Shaalan made a number of useful suggestions in this regard.

On trade issues, I agree with Mr. Pickford, Mr. Kelkar and others that reference to trade issues should focus on enhancing market access for developing countries' exports to industrial countries' markets.

On the issue of resource mobilization, I join others in welcoming Mr. Yagi's announcement of the Japanese government's intention to provide up to \$1 billion in loan resources to the PRGF Trust Fund. Paragraph 6 of the

joint statement should be revised along the lines of the Chairman's comments on Mr. Yagi's statement.

Mr. Fidjestøl made the following statement:

I support the joint statement from the Managing Director and the president of the World Bank. It is a useful contribution that serves to keep these issues high on the agenda of the international community. I broadly agree with the statement, which is well-balanced. However, some clarifications are called for, as mentioned by previous speakers. In general I can associate myself with the remarks by Mr. Padoan. There is a strong need for careful monitoring of the situation of the low-income countries. In particular, debt sustainability is important. Although I find many of the remarks by Mr. Shaalan, Mr. Barro Chambrier, and Mr. Rustomjee useful, I do not think the focus in this report should be too broad. In any case, the balance between the first and the second pillars emphasized by the Managing Director should be maintained.

Finally, I commend the Japanese authorities for their contribution to the financing of the PRGF. Securing financing for low-income countries is more important than ever.

Mr. von Kleist said that a joint statement by the Managing Director of the Fund and the President of the World Bank had to tread a fine line, with the Bank focusing on developmental issues, and the Fund on monetary issues. If it was determined that more bilateral contributions were needed for the PRGF Trust, then the Fund should ask its membership to supply the funds. The Fund, however, could not use its resources for purposes that were not compatible with its mission as a monetary institution.

There had been calls for additional debt relief at the completion point under the HIPC Initiative, which, if provided by the Fund and the Bank, would shift the financing burden unfavorably toward those institutions, Mr. von Kleist continued. At the same time, some creditors, including other multilateral institutions, still had not fully contributed their share of interim debt relief. The joint statement should reflect what the Fund and the Bank could do, but recognize the limited role that the Fund could play because of its institutional nature. That would avoid raising expectations that the Fund, as a monetary institution, would not be able to meet.

Mr. Pickford said that there were still some members of the international financial community that were not contributing fully to interim debt relief—a point he had made repeatedly—and that the Fund should strengthen its efforts to persuade those members to play their part. The existing flexibility in the HIPC Initiative framework should be used in the way that it was intended.

Mr. Barro Chambrier reminded the Board that it had made the decision to support a category of members that were facing difficulties. The decision to increase the resources of

the PRGF Trust had been a common decision, which the German authorities had strongly supported. The joint statement was a unique opportunity to inform the international community that there was a need to reinforce efforts to mobilize resources.

Mr. Duquesne concurred with Mr. Barro Chambrier.

Mr. Kelkar said that monetary institutions such as the Fund could encourage countercyclical policies. Transferring additional resources was such a policy and could yield a win-win situation for all concerned. Hence, it was consistent for the Fund to call for additional resources to strengthen the PRGF Trust. It was also consistent with Mr. Kiekens's notion of "rational compassion".

The Chairman said that the joint statement's emphasis on early and significant trade liberalization was intended to underpin the statement with concrete measures. There should be commitment and adjustment on the side of both the developing and the developed countries. Debt sustainability would depend critically on the ability of the developing countries to sell their products through greater market access to, and without being hampered by subsidies in, advanced countries. The advanced countries' contribution to debt sustainability lacked this aspect. There was indeed a risk in raising expectations about debt relief and not being able to deliver. There might be a need to consider further Mr. Kiekens's suggestion to better link financial support and greater market access. The experience during the Asian crisis had been that the best debt initiatives did not work if the debtor countries could not earn revenues from their activities. Greater technical assistance was also critical. The greatest difficulty was the reluctance to realize that structural change was not only an issue for the developing countries, but also equally for the advanced countries.

Increased ODA was also important, the Chairman considered. The advanced countries should meet the agreed target on ODA of 0.7 percent of GNP.

The joint statement could be made more focused, the Chairman continued. The Board should give the staff and management some leeway to be proactive and flexible. The staff should be encouraged to approach management and the Board for flexible and rapid decisions on particular cases, should the circumstances warrant.

Mr. Kiekens said that the Managing Director should seek a commitment in principle from the Fund's membership during the IMFC meeting that, based on the individual decisions that the Board would take in the coming months to provide more PRGF financing, the members—in particular the creditor countries—would be ready to increase their contributions to the subsidy component of the PRGF Trust Fund.

The Deputy Director of the Policy Development and Review Department (Mr. Ahmed) said that the messages in the paper could be pulled together to give the statement more motivation and focus. The first paragraph, which was an overview, could draw upon those elements and give the focus and main message of the paper.

Some specific changes would include, in paragraph 6, the new status of PRGF resources, given Japan's contribution, the Deputy Director continued. A statement about the status of financing of the trust fund for post-conflict countries would also be included.

Paragraph 5 of the statement could be more specific about the Fund's responses, which was to try to identify the impact of the new international economic outlook (as reflected in the revised *WEO*) on balance of payments needs of low-income countries, and discussing with the authorities the appropriate policy responses and the Fund's contribution, the Deputy Director said. In-country discussions with 20 countries had already been conducted and 39 more were expected to be completed by the end of 2001. Reflecting that information in the paper would meet some of the concerns and suggestions raised by Directors. Reference to the possibility of introducing an oil element in the CFF if needed—a point that had already been included in the Managing Director's statement of October 5—could also be included. A paragraph referring to technical assistance and capacity building would also be introduced.

The point on free trade—the impact of production and export subsidies on commodity prices—could be clarified at the beginning of the statement, the Deputy Director considered. The staff would look at the work being done at the World Bank on the matter. However, the World Bank's findings might not be ready in time to be reflected in the joint statement.

The figure showing the average impact of the current economic situation on countries' current accounts and on debt sustainability did not convey either the differential impacts across countries or the dynamics of the process, the Deputy Director stated. The revised statement would avoid indicating specific figures, and instead lay out the channels of transmission of the economic shocks.

For many low-income countries, the low prices for commodity exports were currently being offset to a large measure by lower oil prices, the Deputy Director explained. For oil producers, however, the negative effect was compounded, as these countries also produced other commodities. The point, however, was that there was much variation in the impact across countries, and a great deal of uncertainty with regard to commodity and oil prices.

There was also uncertainty with regard to debt sustainability, as, in addition to making assumptions for commodity prices and volumes of exports, assumptions about the discount rate also had to be made, the Deputy Director said. Further assumptions about how the additional financing gap would be bridged were also needed. The question was whether it made more sense to do an across-the-board revision of the debt sustainability analysis, or whether it should be done country-by-country at their respective completion points. The paper should lay out more clearly the factors that might affect that calculation.

Mr. Padoan said that, while he understood the need for a case-by-case approach in the debt sustainability analysis, the joint statement could also provide different scenarios that depended on the policy options available. In that manner, the Fund could suggest the most feasible policy actions.

Mr. Daïri said that, like Mr. Kelkar, he favored mentioning in the joint statement that the Fund and the Bank stood ready to support reconstruction efforts in Afghanistan as soon as it was feasible.

The Deputy Director of the Policy Development and Review Department (Mr. Ahmed) said that, regarding Mr. Cippà's question, any country that met a certain set of thresholds and had gone through concessional rescheduling by the Paris Club on appropriate terms would be eligible to be considered for HIPC Initiative debt relief. The analysis would be done country by country.

Mr. Cippà said that the staff should consider the Kyrgyz Republic's eligibility for HIPC Initiative debt relief.

The Deputy Treasurer (Mr. Kuhn) said that the Managing Director had sought new loan resources of SDR 4.0–4.5 billion for the interim PRGF. With the recent pledge by Japan, total pledged new loan resources stood at SDR 4.1 billion, or \$5.2 billion. Available subsidy resources were sufficient to support the currently projected level of PRGF and HIPC operations.

Under the existing PRGF, SDR 1.1 billion in loan resources remained uncommitted, the Deputy Treasurer continued. They were, however, expected to be committed by the end of 2001. Hence, the continuation of PRGF activities would start at that time. With a four-year framework as initially envisaged, the SDR 4.1 billion in pledged new loan resources would translate to a little over SDR 1 billion a year. Higher commitments in any year—and a higher commitment level was clearly anticipated in the coming year—would shorten the period of the continuation of the PRGF. That meant that the self-sustained PRGF would need to start earlier. However, given that there would be less time for resources to accumulate for the self-sustained PRGF, the level of sustainable PRGF operations would be lower than the SDR 660 million initially envisaged. There was, therefore, room within the existing frameworks for additional loan resources to help bridge any higher and unanticipated commitments in 2002.

The staff's calculation had taken into account the clearance of the Democratic Republic of the Congo's overdue obligations, the Deputy Treasurer explained. The calculations, however, had not taken into account the eventual demand for resources from countries in protracted arrears to the Fund, in particular, Sudan and Somalia.

The Chairman urged Directors to impress upon their authorities the urgency of the matters that had been discussed and come up with a coordinated policy approach. The Fund had a well-defined role in the fight against poverty, and the trade issue was a priority. The members should also support the need for greater resources for technical assistance. The advanced countries and the international financial institutions had to do their part.

2. ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM—INTENSIFIED FUND INVOLVEMENT AND ENHANCED CONTRIBUTION

Documents: Intensified Fund Involvement in Anti-Money Laundering Work and Combating the Financing of Terrorism (SM/01/328, 11/6/01); and Anti-Money Laundering—Enhanced Contribution by the Fund (SM/01/258, 8/15/01)

Staff: Ingves, MAE; Kincaid, PDR; Gianviti, LEG

Discussion: 3 hours, 15 minutes

Mr. Callaghan and Mr. di Maio submitted the following statement:

Recent events have demonstrated that the international community must increase its efforts to combat crime and terrorism. Chief among these are measures to prevent criminals benefiting from the proceeds of crime and efforts to prevent terrorists from obtaining finance.

A concerted effort by all countries is required as well as enhanced international cooperation. The members of this constituency are fully committed to the task and are actively engaged in the full range of international activities.

Given events, it is clearly appropriate for the Fund to review the contribution it can make to international efforts in this area. In the current circumstances, it is important that international institutions keep their 'eye on the ball' and focus on areas where they can contribute effectively. For this reason, we agree that the Fund's involvement should be based on the following key principles: effectiveness in strengthening the international financial system; maintaining consistency with the Fund's policies; exploiting the Fund's expertise and comparative advantage; avoiding overlap or duplication with the efforts of other international bodies; and achieving ownership by member countries.

These principles are important, for the international community will not be well served if the Fund's comparative advantage is weakened by its expansion into areas beyond its responsibilities. Moreover, the task of combating money laundering and the financing of terrorism will not be effectively advanced if the Fund attempts to undertake activities for which it does not have the necessary expertise or resources. In fact, the work may be put back for it may delay the necessary action being taken.

There is a complex task at hand and the international community must ensure that the appropriate international bodies have the required mandate and

resources to ensure not only that the job is done, but also that it is done well. If gaps are identified, these should be explicitly addressed rather than attempt to fill them by extending the Fund's activities with the logic that it is ancillary to the Fund's core responsibilities or that there is a fine line between financial supervision/regulation and law enforcement. A basic question that always has to be asked is "can the Fund do the job?"

It is not clear from the paper what expansion of the AML draft methodology document is actually being proposed.

We see logic in expanding the AML document to cover the FATF Special Recommendations on Terrorism Financing that are directly related to financial supervision, such as the reporting of suspicious transactions and wire transfer system which, as noted in the staff paper, have implications for a range of financial system standards.

However, the proposals in Annex II include the expansion of the AML methodology document to cover the institutional aspects of the Special Recommendations, such as the enactment of legislation to permit the seizure of property. This appears to relate more to law enforcement rather than financial supervision. As such, we wonder whether the Fund has the necessary expertise to undertake such assessments and, if so, is this the best use of its comparative advantage.

The proposal to expand the draft AML document to include an additional ten of the FATF Forty Recommendation needs to be carefully considered. We recognize the importance of a sound legal and institutional framework in which policies are set and would endorse expanding the coverage of the AML document to cover institutional aspects related to financial supervision. However, some of the additional ten recommendations proposed to be included would appear to go beyond the Fund's mandate and, we presume, its expertise.

As an example, the first addition proposed is Recommendation 1; ratification and full implementation of the 1988 United Nations Convention Against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances (The Vienna Convention).

Article (3) section (2) of the Vienna Convention requires that the parties to the treaty establish as a criminal offense the "possession, purchase, or cultivation of narcotic drugs or psychotropic substances for personal consumption". As another example, Article 2 section (5) (to paraphrase) requires that Parties ensure that their courts can take into account factual circumstances which make the commission of the offenses established by the treaty particularly serious, such as, inter alia: the use of violence or arms by the offender, the victimization or use of minors, and whether the offense was

committed near an educational facility. In light of these few simple examples, of which there are many, involving the Fund in assessing the full implementation of the treaty seems quite distant from improving financial stability.

The paper also suggests inclusion of FATF Forty Recommendation 2, which requires criminalization of money laundering. A question, admittedly hypothetical, arises in a case where a jurisdiction decides that it is more effective if combating money laundering is a civil offense. This may be because a lower burden of proof is required—a substantial fine and a higher probability of conviction could sensibly be considered of greater effect in deterring money laundering and in staff's view ensuring financial stability. The point is not to get into a legal debate; rather, it is that there is not a strong link between some of the FATF Forty Recommendations proposed for inclusion in the AML draft methodology and financial supervision or stability.

The Review of the FATF Anti Money Laundering Systems and Mutual Evaluation Procedures 1992-1999 contains a discussion regarding Recommendation 5, which outlines that the money laundering offense should apply at least to 'knowing money laundering activity'. The Review canvasses whether countries combine knowledge with the principle of willful blindness (*dolus eventualis*) or broaden the concept of *mens rea* to include belief, suspicion or reasonable suspicion. Our point is simply that these issues do not appear to fall within the Fund's area of expertise, nor do they appear to be related to financial supervision and stability.

The above examples highlight that the "devil is in the detail" and at this stage we think that more thought needs to be given to the details of the proposed expansion of the draft AML methodology and, in particular, whether the expansion is consistent with the principles noted previously.

Moreover, it is worth remembering that we are considering the expansion of a document that is still in draft form and its pilot has yet to be reported on or discussed at the Board.

In principle, we have no objection to the application of the draft methodology document to OFCs and FSAPs where there are shortcomings in prudential and supervisory arrangements in an anti-money laundering context. However, the paper would benefit from some discussion of the pros and cons of this recommendation. It is also strange to imagine a voluntary program, such as the FSAP and OFC assessment process, which has a rule that new elements that are introduced to the assessment become mandatory. However, it is also difficult to imagine a FSAP or OFC assessment that has been carried out without assessing the Basel core principles. Could staff please elaborate on the extent to which any of the ROSC modules associated with these two programs are mandatory? Staff comments would also be appreciated on

whether this proposal is at odds with the operational standards agreed in ‘Option 2’ (SUR/01/13) where each assessment would focus on those elements that are most relevant to the individual member.

Similar to the comment above, there should be some discussion of the pros and cons of this proposal. The immediate question is why should the increased focus be on OFCs, given what we know about the distribution of money laundering, terrorist financing and terrorist activities. For example, if there is agreement to increase resources, should it be split equally between increasing the number of OFCs and FSAPs.

We would also note that it is particularly important for developed countries to “lead by example” in tightening their own laws and financial systems, so perhaps there should be an increased emphasis on FSAPs for developed countries.

We do see merits in increasing the number of voluntary OFC assessments, for this would assist countries seeking to respond to the ‘name and shame’ exercises, including through an increase in technical assistance.

It is also particularly important that the Fund minimize duplication with the FATF and regional anti-money laundering groups. “Assessment fatigue” is a significant issue for many of the Fund’s smaller members, given their limited resources.

The Board has already agreed on guidelines for including standards as an operational part of Fund surveillance, the so-called ‘option 2’. The implementation of the AML draft methodology should follow these guidelines.

It is our understanding that issues outside of the core financial sector and supervisory measures can be addressed on a case-by-case basis when macro-relevant. However, we are unsure of the effect of the refinement of the term to “potential” macroeconomic relevance□□can staff please elaborate whether this is intended to lower the burden of proof on whether an issue is relevant? It is important that efforts to increase compliance or improve information sharing do not become too onerous or ‘crowd-out’ actual work to be done in reforming regulatory or supervisory structures. In seeking enhanced information-sharing arrangements, we should remain mindful of existing publication procedures and ensure that national authorities’ consent is obtained before information provided to the Fund is conveyed to FATF or to other international bodies. Information-sharing arrangements should be transparent.

We see little benefit in the proposed questionnaire to fill the gaps on the status of AML practices, given the resources required. Assessments

undertaken by FATF and regional anti-money laundering groups already cover many jurisdictions. Instead, the Fund could examine ways of establishing a voluntary information-sharing network with the FATF and regional organizations so as to avoid duplication and reduce compliance costs.

We strongly support allocating further technical assistance resources to this area. It is not clear whether the need for increased technical assistance is incorporated in the assessment of needed additional resources for the Fund; could staff confirm this? Many of our constituents have suffered from the adverse impact on their reputation from FATF's unique methods of trying to engender international cooperation and coordination in the fight against money laundering. Further assistance to address renewed calls for assessment of these jurisdictions will be essential.

We appreciate the assistance provided thus far by the Fund in coordination with UNDCP and the Asia Pacific Group on Money Laundering to the Pacific Island countries in our constituency. We would support staff playing a greater role in the coordination of technical assistance in circumstances where their role would substantially increase the effectiveness of the assistance delivered. This coordination should seek to cover all relevant bodies, including the Financial Stability Forum and G-20, as well as bilateral assistance arrangements.

Further information is needed on the relationship between the AML methodology document and the FATF 40 ROSC module that is currently being prepared. In particular, how will the FATF ROSC be made consistent with the uniform, cooperative, and voluntary nature of all Fund/Bank standards and codes assessments? Will the AML methodology document be replaced by the FATF 40 ROSC? How will FATF involvement be managed, given FATF's relatively small resource base (the report acknowledges that FATF will need to expand its staff to effectively carry out tasks relating to its involvement in ROSC preparations)? How will regional FATF style bodies (e.g., the Asia Pacific Group on Money Laundering) be involved?

Mr. Djojosebroto and Mr. Low submitted the following statement:

We would like to thank staff for providing a comprehensive assessment of the possible involvement of the Fund in the international effort to combat money laundering and the financing of terrorism. The events of September 11 have driven the international community to seek strong measures to counter the threat of terrorism. The countries represented by this chair are committed to this international effort. Notwithstanding our support for greater involvement of the Fund in these efforts, we fully agree with staff that such efforts must be consistent with what is defined by the Fund's mandate, namely, only those areas relating to ensuring the integrity and stability of the international financial system. Criminal investigations and law

enforcement efforts are definitely outside the scope of the Fund's mandate. This approach has been spelt out by the Board in its April discussions on money laundering.

With the above clearly in mind, we would like to comment on the various elements proposed by staff on the expanded approach for the Fund's involvement in the international efforts to combat money laundering and financing of terrorism. Staff claim that the proposed approach goes substantially and visibly beyond that envisaged in the April Board decision, but yet does not go outside the Fund's mandate or area of expertise. However, there appear to be several gray areas that require fairly substantial stretching of the imagination for them to qualify as being within the Fund's mandate. We would like to highlight those elements which we consider are really not within the Fund's mandate.

The staff has proposed the inclusion of legal and institutional issues that are relevant to financial and supervisory principles in the Methodology Document. These include, among others, recommendations on criminalizing money laundering, legal authority to confiscate laundered property and establishment of bilateral and multilateral agreements for the exchange of information. However, it is questionable whether these are issues relating to financial supervision. Measures to criminalize money laundering or to confiscate laundered assets relate more to law enforcement than financial supervision. In the context of anti-money laundering measures, agreements on exchange of information pertains to bilateral mutual legal assistance treaties or MOUs for the exchange of information relating to individuals or entities which have been suspected of engaging in criminal activities. These are to facilitate criminal investigations and prosecutions, and have nothing to do with either financial supervision or the soundness of financial institutions.

The staff has proposed that a limited questionnaire could be distributed to members as part of the Article IV consultations if a recent assessment of the country's AML and anti-terrorism financing regimes is not available. We support staff's suggestion that the completion of this questionnaire should be voluntary. However, we seriously question if the intention is indeed bona fide, as the staff goes on to say that members that choose not to complete the questionnaire are required to provide the reasons for not doing so. This is a complete contradiction of the voluntary nature of the questionnaire. Just as we do not require members to provide reasons for not agreeing to the publication of Article IV reports, in line with its voluntary nature, there is no reason to require members to provide the justification for not completing the questionnaire.

We strongly urge staff to rephrase certain questions or even exclude some others as they encroach into areas that are not within the Fund's mandate. To illustrate, we draw attention to the following questions:

Question 2 should be re-phrased to confine it within the Fund's mandate. It is perfectly acceptable for staff to ask the country authorities to list the UN conventions and resolutions relating to money laundering and financing of terrorist activities that it has ratified. However, staff should not extend the question to include an assessment of the extent of compliance. It is not the Fund's responsibility to police the implementation of a country's compliance with UN conventions and resolutions.

We do not think questions 13 and 18 on the number of suspicious transactions reports and number of prosecutions for money laundering crimes are relevant to financial supervision. As such, they are not issues that the Fund should be concerned with.

With respect to question 15, as explained above, in the context of anti-money laundering measures, the exchange of information mainly pertains to criminal investigation and prosecution and are therefore outside the scope of the Fund's mandate. Currently, under the Basle Core Principles of Banking Supervision, exchange of information is confined only to information relating to the financial soundness and other supervisory matters of financial institutions. They do not relate to information to facilitate criminal investigations. We strongly re-iterate that issues on exchange of information on money laundering investigations are outside the scope of the Fund's mandate.

The staff has provided an update of the discussions with the FATF to adapt the FATF's 40 recommendations to the Fund's ROSC process. As noted by the Board in April, one of the most important issues that has to be resolved is FATF's "name and shame" approach to assessments which is not consistent with the voluntary nature of the ROSC process. However, staff did not provide any update on how much progress has been made on this front. Furthermore, staff have been less than clear on how they will draw the line between overlapping responsibilities of the UN, FATF and other anti-money laundering bodies. We would like to underscore the importance of staff adhering strictly to financial supervision related issues and resist the temptation of straying into gray areas bordering on law enforcement and criminal investigation matters. Staff's response will be appreciated.

In the first sentence of paragraph 39, we believe there is a serious typographical error. The scope of the Fund's work definitely does not include "anti-terrorism activities". We would be seriously concerned if this were the case.

In the first sentence of paragraph 31, staff stated that there was broad agreement at the Fund Board in April that the FATF, as the standard-setter in the field, should be strengthened in order to carry out its (expanding) functions effectively. We do not believe this is a correct interpretation of the

Board discussion in April. In any event, it is not the business of the Fund to call for a strengthening of the FATF. At the same time, it may appear that the Fund is questioning the effectiveness of the FATF, something that the Board would wish to avoid.

Regarding additional resources needed for this program□we do not have the expertise to assess how much additional staff is needed but if the Fund were to intensify its involvement, there is no doubt that additional resources, not least of which would include additional staff resources, would be needed. Hence we would caution against an overly emotional response that could exacerbate the perennial problem of “mission creep” and put excessive pressure on its already scarce resources. This is particularly relevant in view of the current situation of enormous demands on technical assistance which have yet to be met.

Regarding the provision of technical assistance to prepare AML legislation and develop FIUs at the national level, the question hinges on a number of considerations, not least of which is whether the Fund has the expertise and a sufficient supply of that expertise. More importantly, it should be noted that FIUs are dedicated to financial crime investigation and intelligence gathering and are not related to financial supervisory functions. As such, they should remain the responsibility of the individual governments and other bodies such as the UN and FATF and the Fund should not be seen to be applying pressure on countries to set up dedicated FIUs.

In conclusion, all these efforts should be carefully monitored and regularly reviewed to ensure their effectiveness. With better delineation of each organization’s areas of responsibility and strict adherence to areas within its own mandate, duplication of work with those that are under the purview of other organizations would be avoided. In addition, the measures to be implemented should not impose excessive burdens on member countries.

Mr. Portugal and Mr. Junguito submitted the following statement:

The abuse of the financial system to support the practice of criminal activities has significant adverse consequences both at the national and the international levels. It can create reputational risks for financial institutions, compromise the integrity of the financial system, and distort the efficient global allocation of resources, creating significant cross-border negative externalities that adversely affect third countries. Hence, during last April’s Board discussion of this topic, our Chair strongly supported a strengthening and intensification of the Fund’s role in combating money laundering and financial crime in a manner consistent with the Fund’s mandate and principles.

While the financing of terrorism was not specifically discussed at that time, the September 11 events in the United States have shown that, like money laundering, terrorism and its financing can also compromise the integrity of both national and international financial systems and have far-reaching economic consequences for the national and global economies. Hence, it should be a topic of concern for the Fund. Indeed, these tragic events have strengthened the growing international consensus not to tolerate that the financial system is abused either as a hideout place for ill-gotten money with money laundering activities, or as a conduit for financing criminal activities such as terrorism. The need for a substantially increased Fund action in combating all forms of international financial abuse has acquired added relevance and urgency.

The Fund's nearly universal membership and its nature as a cooperative institution, coupled with its growing experience in conducting surveillance and assessments of the financial sector and in providing technical assistance in this area, make it an important piece in the international efforts to combat financial abuse. We strongly support the staff's proposals presented in this paper for intensified work in this area, based on the Fund's mandate and expertise, and in close collaboration with other relevant international organizations.

The UN Security Council Resolution 1373 requiring all member states to prevent and suppress the financing of terrorism, and the adoption by the Financial Action Task Force (FATF) at its extraordinary meeting in Washington last October 29 of eight new recommendations on terrorist financing constitute important multilateral developments that need to be incorporated in the Fund's work against financial abuse. We, therefore, support the staff's proposal to amend and amplify the Fund-Bank Anti-Money Laundering (AML) Methodology Document to include both the relevant new FATF recommendations on anti-terrorism financing and the analysis of the legal and institutional framework, to effectively implement the anti-money laundering and anti-terrorism financing activities and the international exchange of information in this area. Among those recommendations, the reporting of suspicious transactions linked to terrorism, the imposition of anti-money laundering requirements on alternative remittance systems, and the strengthening of customer identification for wire transfers are particularly important. As the staff pointed out, there might be practical difficulties in establishing Know-Your-Customer rules to identify potential terrorists if the customers have not been already classified as such by law enforcement agencies. For while money laundering involves the processing of criminal proceeds to disguise their origin, the financing of terrorism involves the use of funds sometimes from a legitimate origin for the future practice of crime, thus complicating the use of KYC rules. Hopefully, additional research into patterns of terrorist financing to be undertaken by the FATF and other international organizations may help in this connection. As before, the Fund

should continue to abstain from entering in law enforcement and criminal issues.

At times, the two crimes—money laundering and financing of terrorism—go together, as it is the case of the use of laundered illegal drug proceeds to buy weapons and materials for terrorist activities. Both types of financial abuse should fall within the areas of concern of the Fund.

The proposal to apply the expanded AML Methodology Document to all FSAP and OFC assessments is also appropriate. As we emphasized before, the efforts to fight money laundering and financial abuse should cover all countries, be they small offshore financial centers or major on-shore financial centers. Global consolidated supervision can be a powerful instrument to combat money laundering. The solution lies not only in better supervision in offshore financial centers, but also in more effective consolidated supervision by home countries. These considerations should inform the coverage and priority of the Fund's work in this area.

Similarly, the discussion of actions against money laundering, financing of terrorism and other forms of financial abuse needs to be incorporated in the Article IV surveillance process. This needs to involve not only the follow-up of recommendations presented earlier by the staff in FSAP or OFC assessments, but also the discussion of these issues in countries where no FSAP or OFC exercises were conducted. Priority in addressing these issues in surveillance should be given to cases when they have macroeconomic relevance, where financial systems are perceived to be subject to significant money laundering and financial abuse, or where there might be significant externalities to other countries, which is often the case of large financial centers of the major industrial countries that have systemic importance. The staff's suggestion to develop a questionnaire to be used on a voluntary basis for the entire membership starting in the spring of 2002 seems to be a practical suggestion to tackle this issue in a uniform manner.

We also support close Fund collaboration with FATF to adapt the 40 recommendations to a ROSC process that is uniform, cooperative, and voluntary, as well as efforts to increase the Fund's technical assistance in this area. The Fund-World Bank involvement in helping to draft assessment criteria for the supervisory and regulatory elements for the financial sector, while leaving the FATF to level up the guidance on criminal and law enforcement areas, is an appropriate strategy. The Fund also needs to strengthen its coordination with the UN and regional anti-money laundering organizations, in particular with the FATF/South America.

A crucial aspect of international cooperation against financial crime is a fluid cross-border information sharing and exchange arrangements. No country can solve the issue of financial abuse alone. This is an area where

concerted and collaborative international effort is much needed and, as the staff pointed out, is primarily a responsibility of the member countries.

Technical assistance could be provided in the area of drafting laws, regulations, and supervisory guidelines that conform to accepted standards, as well as in the establishment and operation of FIU's. Given the actual lack of expertise of the Fund and World Bank on some of these issues, collaboration from supervisory institutions and FIU's of member countries that have well-structured AML rules and institutions and international organizations needs to be explored. As proposed by the staff, Board circulation of technical assistance reports should continue to be based on the current policy that requires the country's prior consent.

We would also like to highlight that a major vehicle to transfer resources is cash transfers from industrialized countries, which is not discussed in the staff paper and should also be a point of concern and action by member countries. It is well known, for example, that significant amounts of drug money proceeds are shipped out of industrial countries that are the major consumer centers, and laundered outside the country.

We would be willing to support the preliminary request for increased staff resources, as well as the need to engage consultants with proven expertise in AML issues, and emphasize that these resources should be additional and not redeployed from other traditional Fund activities. The preliminary proposed staff addition is significant, indicating an important intensification of the Fund work in this area. Given the collaborative nature of the AML work, it would also be useful to know what are the increased resources being programmed both by the World Bank and the FATF.

As the AML and the proposed combat of terrorist financing are novel initiatives at the Fund, and considering the significant increase in human resources and the enlarged emphasis proposed for these activities, the Board would need to revisit and monitor the experience before both the Spring and Fall meetings of the IMFC.

Mr. Shaalan and Ms. Farid submitted the following statement:

The recent tragic events have underscored the urgency of having in place an effective and realistically operational mechanism to combat money laundering and the financing of terrorism. The complexity of the task, which covers a number of dimensions, calls for a wide-ranging, cooperative and disciplined approach in which the different players, namely the national authorities and the relevant international institutions, concentrate on the actions for which they have the mandate and the required expertise. Within this cooperative approach, the primary responsibility for the fight against money laundering and terrorism financing clearly has to rest with the national

supervisory and enforcement authorities, and other relevant institutions of individual countries.

Turning to the Fund's role in this global effort, we would like to reconfirm our full commitment to the agreement reached by the Executive Board last April to enhance the Fund's contribution to international efforts to counter money-laundering within its core mandate. Accordingly, we reiterate our support for the five bullet points in paragraph 3 of the paper before us today.

In response to recent events, we fully support a further strengthening and intensification of the global efforts aimed at combating money laundering and terrorist financing. Staff sets forth two possible approaches for the Fund's contribution to this important goal. The first approach would be to extend the Fund's current AML efforts, focused on financial regulation and supervision, to incorporate areas germane to countering terrorism financing. We agree with staff that it is possible to incorporate those international standards now being developed to combat terrorism financing which fall within the Fund's jurisdiction into the framework agreed to in April. This would include incorporating them into the AML Methodology Document aimed at enhancing the assessment of financial standards relevant to countering money laundering in the context of FSAPs.

The alternative approach would be to expand the Fund's role to include also the legal and institutional issues, and when relevant, the unsupervised financial sector that impact on the effectiveness of financial sector policies, including financial supervision, and that are germane to AML and anti-terrorist financing issues. Endorsing the latter approach, staff note in paragraph 38, that it "goes substantially and visibly beyond that envisaged in the April Board decision, yet does not go outside the Fund's mandate or area of expertise." However, this does not appear to be in accord with paragraph 5 of the paper, where staff cautions that this approach raises complex questions concerning the consistency with the Fund's mandate and possible "mission creep", as well as the division of labor amongst international bodies, particularly the FATF. Staff also caution in the same paragraph that questions would also arise as to where to draw the line between activities related to financial supervision and legal and institutional aspects of supervision and financial sector policy generally, and law enforcement. In fact staff stress here that these issues would need to be reviewed in formulating effective and suitable measures for the Fund's enhanced involvement. We would underscore the importance of carefully considering these issues in order to produce an effective mechanism that would enhance the Fund's role in carrying out this function.

It is in that spirit, that we feel that we should exercise adequate caution as we specify the approach the Fund should take in meeting the global

challenge of AML and terrorism financing in the period ahead. We need to be effective. But, to do so, we also need to respect our mandate and expertise. It will not help our cause to take up tasks for which we are not equipped. Thus while we find it reasonable that the effectiveness of preventative measures depends not only on adherence to financial supervisory principles, but also upon the legal and institutional framework in which those principles are applied, it is not immediately apparent to us that the Fund is the suitable organ to conduct assessments of the general legal and institutional framework of its member countries. Such a task would seem to take us beyond both our mandate and our expertise, and also seems to bring us closer to law enforcement issues, which we all agree do not belong in the Fund's domain.

Mr. Callaghan, in his insightful statement has pointed to a number of examples that illustrate this point.

With regard to the other measures included in the staff's proposed approach: we fully support the acceleration of related technical assistance and OFC assessments, provided that the additional resources needed are made available. We also support increasing the provision of technical assistance in the AML area focused on financial supervisory systems and call for increased resources to be devoted to this aspect of the Fund's efforts. The proposed allocation of additional staff for this purpose, as shown in the table on page 18, appears to us to fall short of the large resources that would be needed.

We also support following up AML recommendations contained in FSAPs in the context of Article IV consultations when they are clearly macroeconomic relevant. Here, like Mr. Callaghan, we would appreciate clarification of staff's use of the phrase potential macroeconomic relevance and its operational implications. We have no objection to the proposed questionnaire, except for the reservations expressed above with regard to the coverage of the legal and institutional framework.

We continue to support the Board's endorsement of last April of close cooperation with the FATF, and particularly having Fund staff contribute to the revision of the FATF 40. However, it is important here to note that Fund/FATF cooperation, which the Board endorsed, is confined to the standard-setting role of the FATF. This endorsement should not be construed as an endorsement of the FATF's "name and shame" assessments of compliance with anti-money laundering standards. Many Chairs have expressed strong reservations on the non-uniform, non-voluntary, and non-cooperative aspect of the FATF actions in this regard. It is also important to stress here that, consistent with its mandate and expertise, the Fund should be involved only in those issues in the FATF 40 Recommendations that deal with financial regulation and supervision. We would also like to note here that a report by staff on how the FATF process is to be made consistent with the

ROSC process is pending. As noted in the April Summing Up and in today's paper, the FATF assessment process needs to be uniform, cooperative, and voluntary before consideration is given to inviting FATF to prepare ROSC modules on FATF 40.

Finally, on the question of resources, the adequacy of the preliminary resource estimates would depend on the extent to which the Board agrees to the expansion of the Fund's role. If the expansion were limited to the inclusion of aspects related to combating terrorism financing, with which we are in agreement, and an acceleration of the actions agreed to in April with which we are also in agreement, then we feel that the proposed resources may be sufficient to cover the direct cost of the task. However, we wonder whether the proposed increase in Fund resources to finance this activity will cover the requirements of technical assistance that is crucial to a successful implementation of this initiative. If the Fund were to address the legal and institutional aspects that lie outside its core mandate, then we are afraid that this would require far more additional resources than proposed.

Mr. Wijnholds submitted the following statement:

I would like to thank the staff for the clear paper laying out the issues for discussion and the choices which will have to be made by the Board and the IMFC. The events of September 11 have renewed our awareness of the role of the financial system in facilitating crime and terrorism. In that context, I support the expansion of the anti-money laundering methodology with anti-terrorist financing elements. Moreover, I strongly agree that the Fund should, within its own mandate and competence, intensify its contribution to the global efforts to combat money laundering and terrorism financing. Mr. Callaghan and Mr. di Maio summarize this very well in the five key principles for Fund involvement, which they have presented in their preliminary statement. The lead in the overall anti-money laundering effort should clearly remain with the FATF.

Basically, we should stick to the path that we agreed to in April, and we should intensify and enhance our work along these lines. Generally, I agree with most of the Staff proposals, which fit very well in the agreed approach. The Fund should continue to focus on the financial and supervisory aspects of money laundering and terrorism financing. Law enforcement and institutional aspects should be left to other organizations. For the FSAP and OFC-assessments, this implies that their focus should remain on financial stability issues and that they should not be enhanced to cover legal and institutional elements. The full Anti Money Laundering Methodology should not be applied in all FSAP and OFC-assessments. Nevertheless, I welcome the proposed increase in the number of OFC-assessments. Offshore Financial Centers are a weak link in combating financial abuse through their legally anchored limited openness to foreign oversight and their sometimes weak

financial supervision practices. This also underscores the importance of enhancing consolidated supervision.

A major question still to be solved with regard to the work distribution on money laundering is how the work of the Fund and the FATF and potentially other organizations will come together in the proposed anti-money laundering ROSC. To prevent overlap and duplication of work, it is important to agree on one document that covers both the financial and supervisory aspects, as well as the legal aspects of money laundering. If the ROSC module is to fulfill this role, this means that it might have to cover all forty recommendations, from which a major part should not be assessed by the Fund but by the FATF or by other competent organizations. A precondition for this approach is of course that the assessments for this ROSC module, also if they are done by the FATF or others, are made consistent with the principles of the ROSC process, which means that they should be carried out in a uniform, cooperative and voluntary way. The Fund should stick to a collaborative approach and not get involved in "naming and shaming". Part of an anti-money laundering ROSC should also be that there is only one common methodology document, with separate attention for financial and supervision aspects and legal and law enforcement aspects.

As I already indicated, the lead of the anti-money laundering effort, including the creation and assessment of the ROSC module, should remain with the FATF. In this context, I do not agree with the Staff proposal to give the Fund a more active role in the coordination of technical assistance for anti money laundering and countering terrorist financing. This could better be taken up by other organizations like the FATF or the World Bank, which already has an Anti Money Laundering Coordinating Committee. Those organizations also have the mandate and expertise to address the predominantly legal aspects.

Finally, I agree that the work needs to be carefully monitored in the light of experience and evaluated in one year's time, especially given the relatively high budgetary costs. We have to keep in mind that the activities for which these resources will be used, will crowd out work on other important macro-economic issues, assuming that these resources should at least partially be freed through a reprioritizing of the current budget.

Mr. Bennett and Mr. Vermaeten submitted the following statement:

The events of September 11th have made it clear that terrorism can not only have an incredible human cost, but can also profoundly affect macroeconomic stability. It is therefore appropriate that we re-examine the Fund's contribution to combating money laundering and terrorist financing. To be effective, the Fund must work with the rest of the international community in a broad range of fora, including the UN Counter-Terrorism

Committee, FATF and FATF-style regional bodies, and other international standard setting bodies.

In defining the role of the Fund, the Task Force's analysis and recommendations constitute an appropriate response to recent events, while respecting the Fund's mandate and areas of expertise. In particular, it appropriately adheres to the principle agreed to by the Board in April that the Fund should not be engaged in the law enforcement aspects of money laundering and terrorist financing.

Overall, we are supportive of the proposed measures. In particular:

All FSAPs and OFC assessments should include an assessment of compliance with anti-money laundering standards, generally based on the expanded methodology document, which includes legal and institutional issues related to the effectiveness of financial sector policies in this area.

We are supportive of the Fund's close work with the FATF to develop a mutually acceptable ROSC module on anti-money laundering as soon as possible. It will be important, however, that the Fund/Bank take the lead in undertaking the ROSC.

We are supportive of increasing the pace of voluntary assessments of OFCs to 20 per year and are encouraged that many of the larger, systematically more important OFCs can be assessed. This will help prioritise the provision of technical assistance.

The Fund should not only increase the provision of technical assistance, but also take a more active role in coordinating technical assistance in these areas.

The task force stays away from conditionality, and proposes that questionnaires based on the expanded staff AML methodology be used in Article IV consultations "on a case-by-case basis, based on potential macroeconomic relevance". The questionnaire would be voluntary, and would not enter into conditionality.

It is tempting to argue that this approach does not go far enough. Recent events have shown that a single act of terrorism—perhaps only involving modest sums of money—can have profound macroeconomic consequences, and that we have a responsibility within the Fund to do what we can to prevent a repetition of these tragic events.

However, we would argue that the approach is reasonable and balanced. Our constituency believes that the Fund's work in combating money laundering and the financing of terrorism should continue to be based on a

cooperative and voluntary approach. At this stage, we do not think it would be helpful to engage in a debate about the possible use of conditionality to encourage members to implement reforms. While such an approach could conceivably be an appropriate tool, our focus should be on current programs to help countries strengthen their financial sectors through voluntary approaches.

Using the results of an FSAP or ROSC on money laundering to impose conditionality runs the risk that countries could resist participating in these assessments. The FSAP and ROSC program are aimed not only at improving anti-money laundering capabilities, but also at strengthening the whole financial sector, including in the areas of banking and insurance supervision, securities regulation, auditing and accounting fiscal and monetary transparency, data dissemination, and corporate governance. Without the FSAP and ROSC, the Fund would lose its main tool to identify weaknesses of countries' financial sector.

The FSAP and ROSC have shown to be effective in helping countries strengthen their financial sectors. There is no reason to believe that the proposed set of measures would not be effective in fighting money laundering. The proposed "questionnaire" is a practical approach and should be helpful in situations where an FSAP and ROSC have not been recently undertaken. That being said, we would underscore the need to provide participating countries appropriate technical support in improving their financial system, and provide appropriate support in complying with questionnaires.

The paper proposed that the staff provide a progress report within a year. We support the idea of having the Fund's work reviewed, and look forward to evaluating whether the "questionnaire" is appropriate. We would, however, recommend that staff provide a progress report in time for the next Annual Meeting in the Fall 2002. The issue of conditionality could also be revisited within the broader framework discussions of streamlining conditionality in early 2002.

Finally, with respect to resources, we support the initial allocation of approximately 14 additional staff. We note, however, that resource allocation in the first year is likely to be small, suggesting that not much can be done in the current fiscal year. We encourage staff to move expeditiously. The Fund should also be prepared to provide additional resources in the future if it will help the Fund to play an effective role in AML and combating the financing of terrorism. Moreover, we should be mindful that some small countries already face considerable resource challenges and "assessment fatigue", and the Fund should be prepared in some cases to provide additional technical assistance to these countries.

Extending his remarks, Mr. Vermaeten noted that, with respect to offshore financial centers, Caribbean countries had been increasing their efforts to combat money laundering, which had been acknowledged by the FATF. Moreover, his Caribbean constituents had stated their support for the fight against terrorism financing. In light of this, and in connection with Mr. Callaghan's statement, why had the staff put a special focus on OFCs?

The Fund was rightfully moving ahead quickly in its work on anti-money laundering efforts and the combating of terrorist financing, Mr. Vermaeten continued. However, speed and quality had to be balanced carefully. Given the technical concerns that many Directors had, the staff would need to review its approach continually in order to make the necessary changes to ensure maximum effectiveness, especially as other organizations were also working in that area.

Mr. Cippà submitted the following statement:

I thank the staff for providing us with a comprehensive overview on the issues related to the Fund's contribution to the ongoing efforts to combat money laundering and the financing of terrorism. This chair strongly supports these initiatives, which can best be addressed by close cooperation among members on a global scale. Our goal must be an efficient fight against money laundering and terrorism financing from all the different angles. All international financial institutions are being called upon to strengthen their instruments to prevent financial abuse, among which strict know-your-customer rules and procedures are crucial. The Fund has to assume its share of responsibility. Therefore, we support a more intensive role for the Fund in effectively addressing abuses of the global financial system. We agree with the staff that, given its mandate and expertise, the Fund can play a facilitating role that is complementary to that of other international bodies, especially the FATF.

The extent to which Fund involvement can be broadened depends on how we answer a number of complex questions. The Fund can play a constructive and effective role. To do so, it has to focus on its area of expertise in order to avoid overlap and to ensure an efficient division of labor among the IFIs. Resources and know-how in this field are in too short supply to allow a duplication of efforts. As the Fund has recently strived to concentrate on its core mandate, the issues of compatibility with its mandate and "mission creep" are rightly being mentioned in the paper. Moreover, the discussions on conflicting approaches in assessing anti-money laundering systems (collaborative versus "naming and shaming") will also need to be taken further.

In evaluating the issues mentioned above, this chair is being guided by the following fundamental considerations:

The FATF should be the main standard setter for money laundering and terrorism financing. Any further adaptation and interpretation of the FATF recommendations as the recognized international standard should thus be done by the FATF itself. This chair welcomes the new FATF recommendations on fighting the financing of terrorism and encourages further work, particularly in the field of know-your-customer rules and procedures.

Comprehensive assessments of the recognized anti-money laundering standard have to be conducted in a well-coordinated way. Parallel assessments by different bodies put an undue burden both on the assessed and on the assessor, and potentially give rise to double standards.

We fully support the work of the FATF working group elaborating a ROSC module. We are also in favor of a comprehensive money laundering assessment. Its procedures should be based on the ROSC principles (which ensure consistency), follow a cooperative approach and be of a voluntary nature as agreed by the Board.

We support the Fund in its work to refine the Fund-Bank AML methodology document. In light of the recent decisions by the FATF plenary, we support expanding the methodology by those anti-terrorism financing elements that have a clear link to the financial sector. This implies that the methodology will draw on the original work of four standard setters (FATF, Basle Committee, IAIS, IOSCO) as well as on their interpretation of the respective principles. In order to arrive at a useful instrument, the existing methodologies of those bodies will need to be consolidated further. Close cooperation between the Fund and these standard-setting bodies in modifying the methodology is called for.

An extension of the scope of the current methodology document might be warranted. However, we are not convinced that a partial expansion into legal and institutional issues (i.e., a further partial inclusion of the FATF 40) would be feasible in practice. Such a partial expansion might result in assessments that are neither well defined nor comprehensive. For this reason, rather than taking a suboptimal intermediary step, we would advocate the inclusion of all FATF recommendations in the Fund-Bank methodology document. In line with the above, the FATF should set, develop, interpret, and evaluate the implementation of those parts of the methodology that go beyond supervisory issues. Such a comprehensive methodology document would bring together the relevant principles developed by the four main standard setting bodies and could then form the basis of an anti-money laundering ROSC.

We encourage further efforts to coordinate the assessment process at the multilateral level. However, a consensus has yet to emerge on which

international body is best placed, in terms of expertise, to conduct assessments and on how a newly expanded methodology should be applied. Answering these questions will be crucial for defining the future role of the Fund in the area of anti-money laundering.

We strongly believe that the Fund should continue to focus on those issues where it has a comparative advantage. In our view, this warrants a continued focus on money laundering aspects in supervisory principles as agreed by the Board in April. For aspects beyond these issues, experts from the FATF and its members would need to be asked to contribute.

It follows that the regular surveillance activities by the Fund should be limited to an additional questionnaire focusing on supervisory principles, since usually no external expert on money laundering will participate in the mission and no comprehensive assessment of the money laundering regime will take place. We can go along with the idea that members complete such a questionnaire as part of the Article IV consultations and that these issues are consequently reflected in the staff report on a case-by-case basis, depending on their macroeconomic relevance.

Given that technical assistance in this area has to be seen as part of a country's capacity-building efforts, we would primarily encourage the World Bank, rather than the Fund, to provide such multilateral technical assistance. The Fund's activities should remain confined to supervisory issues.

The FSAP process and the OFC assessments are indeed the appropriate instruments for applying the Fund-Bank methodology. We are convinced, however, that the treatment of money laundering within an FSAP should not alter the agreed purpose and focus of the FSAP, which is financial system stability. The use of the Fund-Bank methodology document—whether it remains confined to supervisory principles or becomes more comprehensive—should therefore not be an equally compulsory element like the five core financial sector standards, which are integral part of the assessment that a country volunteers to. A strong presumption to use the methodology may constitute an obstacle for additional FSAP participation. In addition, the room given to this assessment in the FSAP report and the FSSA should reflect its limited importance relative to the main motivation of a FSAP. Members should thus have the possibility to join the FSAP program without undergoing an anti-money laundering assessment based on the expanded methodology. We would nevertheless encourage members to also volunteer for such an assessment. As stressed above, in the context of an FSAP where the member has agreed to the use of the methodology, the Fund should concentrate on supervisory issues while external experts will need to join the mission for assessing other elements of the methodology.

As to the resource implications, we agree that more resources will need to be allocated for the purpose of intensifying the work on money laundering. We can support a staff increase as outlined in the paper, provided the focus on supervisory principles is maintained. In addition, we would also like to call for a substantive increase of the resources of the FATF secretariat, primarily in order to ensure consistency in adapting and interpreting the FATF recommendation. It seems crucial that expertise is being built-up further at the FATF in order to meet the rising demands put forward by the international community to this specialized international body.

Given the cross-border nature of today's global financial transactions, we agree that information sharing and cooperation among national authorities are important elements in effectively tackling abuses of the international financial system. However, the use of such bilateral activities is clearly the responsibility of member governments.

We strongly support the careful monitoring of the Fund's activities in this field as well as a review of experience in one year's time.

Mr. Mozhin and Mr. Palei submitted the following statement:

It is the joint responsibility of the authorities in all countries to upgrade their work on combating money laundering and financing of terrorism. Our authorities fully support international efforts in this area and intend to fully contribute to this work. In Russia, in accordance with the recently adopted anti-money laundering law, a Financial Intelligence Unit was created, and the whole new system is expected to become fully operational from February 2002.

In response to the recent events, the willingness of most of the countries to work together and share information with the goal of combating financing of terrorism and money laundering has increased to a qualitatively new level. The Fund, as one of the leading international financial institutions, has to find the appropriate ways to participate in the broad international efforts. We thank the staff for their hard work and for preparation of a comprehensive report. The report correctly emphasizes the complexity of the task. Combating money laundering and financing of terrorism requires efficient cooperation of the national authorities, the UN, the Egmont Group, the FATF and similar regional organizations, and international financial institutions. For the Fund, one of the major challenges is to intensify its involvement based on its comparative advantages and without significantly overstepping its mandate. Following the guidance from the Board, the staff has tried to come up with the right balance, so that the Fund would expand its involvement in the supervisory and regulatory elements for the banking, insurance, and securities sectors, while other organizations will handle the law enforcement areas. The problem is, of course, that it is difficult to separate the

implementation of the financial supervisory principles from the legal and institutional issues.

We would like to thank Mr. Callaghan and Mr. Di Maio for their preliminary statement. We have similar questions about the specifics of the staff proposals. In essence we share their concerns about the proposed rapid pace of decision making. The danger here is to make hasty decisions and commitments without full realization of the possible consequences of such decisions. We do not see a need to agree on all of the specific staff's proposals now. Rather, we view them as a possible sequence of steps to be considered in coordination with other key players. A time-bound well-defined work program in this area could be a productive and credible way to intensify Fund participation. For example, regarding the staff proposal to address money laundering issues in the context of the FSAP, we are not aware of a similar AML paper being discussed by the Board of the Bank before the IMFC meeting, and we would appreciate it if the staff could provide us with an update on the Bank's plans.

We note that the Fund and the World Bank are actively participating in the preparation of an updated methodology document by the FATF. The Fund and the Bank are in the midst of a pilot project of application of the AML methodology document in several countries. Presumably, this application of the methodology document should shed more light, firstly, on which FATF principles are relevant to the Fund, and, secondly, on where the Fund already has or could upgrade its expertise by devoting additional resources. Thirdly, the pilot project should also clarify which areas are beyond the Fund's reach and should be left to other entities. It is our hope that the results of the pilot projects will answer many of the questions on the appropriate delineation of law enforcement and financial supervision activities. The discussion of the amplified and expanded Fund-Bank AML methodology Document, in our view, should follow the completion of the pilot assessments and should explicitly and in details justify the inclusion of additional FATF principles beyond previously discussed 19. In addition, it would be essential to solicit the national authorities' views on the draft of the expanded methodology document and to incorporate their comments in the final version of the document.

As a result of the AML assessments, the Fund is expected to put together various documents, in the form of a technical assistance report and/or a report on observance of principles included into the AML methodology document. We understand that, at this stage, the staff do not propose any changes to the current procedure for the use of the technical assistance documents, but may do so at the time of the technical assistance review in March 2002. Our general approach is based on the belief that the use of these documents should not compromise the quality of the discussions between the authorities and the staff. The authorities' consent should be required for the

release of the relevant information to other international organizations as well as for publication.

Our main concern is that there is still lack of clarity with respect to the envisaged modalities of the possible AML ROSC (some Directors use the term FATF ROSC). Is it the staff's proposal to issue a ROSC based on the AML methodology document, which will deal with a subset of the FATF principles? We still do not see a possibility to merge the FATF and the ROSC processes, since the FATF practices remain inconsistent with the uniform, cooperative, and voluntary nature of the ROSC process. While we welcome closer cooperation between the Fund and the FATF, and unless the FATF changes its process, it is our position that an arms-length relationship should be preserved. It would be inappropriate for the Fund and harmful for its core activities to associate itself with any process that results in a publication of various blacklists.

Finally, we appreciate the inclusion of the estimates of additional costs of expanding Fund's activities. The provided estimates seem to be on a conservative side, especially if the demand for technical assistance increases, and they need to be monitored carefully.

Mr. Daïri submitted the following statement:

We thank the staff for the well-written and interesting paper on an important and complex subject. Recent events have brought into sharp focus the stunning impact that terrorism can have on global growth and financial stability. It is against this background that the paper sets out the considerations for intensified Fund involvement in anti-money laundering (AML) work and support of systems to combat the financing of terrorism. While staff, in general, make a good case for the Fund to enhance its involvement in these areas, they rightly emphasize that such involvement is not without risks. It is bound to raise complex questions "concerning consistency with the Fund's mandate," the appropriate division of responsibilities with other international bodies, such as the FATF, the difficulty of knowing where to draw a line between financial, legal, institutional, and enforcement aspects and the need to respect the sovereignty of Fund members. Given these legitimate concerns, it is critically important to ensure that any enhanced involvement by the Fund is well defined, cautious and pragmatic, and fully in line with its mandate and expertise. Close attention to members' circumstances, priorities, and resource constraints is key to the success of our efforts in this area.

The staff indicates that one approach to the Fund's response to financial system abuse and terrorist financing would have been to extend its current AML work, which is primarily focused on financial regulation and supervision, to incorporate areas "germane to countering terrorism financing." We believe there would have been great merit in proceeding in such a

deliberate and careful manner—drawing, for example, on some of the new recommendations on terrorist finance which were adopted by the FATF in its recent extraordinary plenary—with our approach evolving in due course as experience is gained. Unfortunately, the staff do not flesh out this approach, but work on an alternative approach that, given its expanded nature, harbors the many risks and complexities enumerated above.

The greater risks of the expanded approach notwithstanding, we can support the broad thrust of the staff proposals, but urge to proceed with caution. We agree that the Fund-Bank AML Methodology document could be usefully expanded to incorporate relevant parts of the anti-terrorist financing recommendations of the FATF, namely those linked to the supervision of the financial system. However, we wonder whether it would not be prudent to await further clarification from the FATF which has not yet taken up the special recommendations for countering terrorist financing where some major issues still need to be resolved.

The staff justifies the inclusion of legal and institutional issues on the grounds that the implementation of financial supervisory principles cannot be separated from the legal framework in which they are embedded. While this may be true, here too we need to proceed with extreme caution. As Mr. Callaghan and Mr. Di Maio point out, it is not clear from the staff paper which of the recommendations will be incorporated in the expanded AML document; furthermore, some of the recommendations appear to deal with areas which are clearly outside the Fund's mandate, such as enforcement issues, and should be best left to others. Greater specificity and clarity on what elements will be incorporated into the expanded document would allow a judgment on its consistency with the Fund's mandate.

Subject to the above clarifications and caveats, we agree that the expanded AML Methodology Document be applied in all FSAP and OFC assessments, support the proposal to step up the number of OFC assessments per year, and concur with the suggestion that Article IV consultation missions discuss the authorities' reactions and views on relevant AML reports and implementation issues. The staff propose issuing a limited questionnaire to obtain an overview of the status of member country efforts in the application of financial regulatory principles in cases where a recent AML and anti-terrorism financing assessment is not available with the issues being discussed in Article IV reports. We have no objection to this proposal but, like Mr. Djojosebroto and Mr. Low, we are uncomfortable with staff's suggestion that those members who decline to fill out the questionnaire should present an explanation. This requirement is inconsistent with the voluntary nature of the questionnaire. Furthermore, some of the questions raise concerns. For example, if the Fund were to get into the business of assessing compliance with UN conventions and resolutions, it would give legitimacy to those who advocate the creation of an overarching body in the UN to guide the work of

the BWIs. In any event, we hope that the selection of countries is carefully done with no attempt to stereotype or single out members. It is also important to ensure that our work in this area conforms to the three major principles, endorsed by the Board last April, namely, that the methodology and assessment procedure for the FATF standard should be uniform, cooperative and voluntary. We support the idea that, following a phase-in period, the questionnaire will aim to cover the whole membership.

We agree that unregulated financial intermediaries and other organizations be subject to greater scrutiny. However, it is most unfortunate that informal banking systems have been tarnished with the brush of terrorism financing. The vast majority of these systems provide an important service to millions of honest and hard-working laborers worldwide. The staff rightly notes that the existence of these informal institutions “fill the gaps” created by inadequate formal financial institutions and that the key to combating cases of abuse of informal financial intermediaries is to promote the development of sound formal institutions and reduce distortions. Like staff, we are skeptical of the success in ensuring compliance by these intermediaries to tighter regulations although, in some countries, where these systems have been brought under the purview of the central bank’s prudential guidelines, there could be useful insights and lessons into the efficacy of closer oversight. We note the dearth of empirical research and analysis in this area and encourage the Fund to examine these unregulated financial intermediaries.

We agree that the amount of technical assistance in this new area will have to be increased significantly. The additional burden on national authorities will be very heavy, especially where existing administrative and institutional structures are weak. We believe that technical assistance needs could best be gleaned from FSAP and OFC assessments where shortcomings are highlighted. We welcome the intention to increase the amount of technical assistance directed at improving the efficiency of formal payment and remittance systems and, where feasible, exploring the development of FIUs at the national and regional level.

The staff indicates the resource implications necessary to support enhanced efforts in the AML and anti-terrorism financing area. Given the breadth and complexity of the task at hand, our judgment is that the requirement for additional staff as proposed is too modest. If the Fund is to intensify its contribution in this area, it must do a professional and credible job. The proposed improvement in supervision and regulation in this area cannot be implemented in a vacuum and has to be carried out in the context of a broader reform agenda, aimed at strengthening the financial system and the institutional framework. It will be indeed counterproductive if we raised unrealistic expectations and if the Fund failed to deliver. Considerably larger staff resources will be needed, and we urge a reconsideration of the numbers and skill distribution of additional regular staff.

Mr. Oyarzábal and Mr. González-Sánchez submitted the following statement:

First, we commend staff for the very informative and comprehensive document on today's topic of discussion. The document before us presents an update of the all-important subject of anti-money laundering (AML), and rightly incorporates combating the financing of terrorism into the equation. The very unfortunate recent events on September 11 have shown in a dramatic way their potential to disrupt not only peace but also the world's economic stability and growth. Against this framework, there is no doubt that a united front to combat the financing of terrorism—along with anti-money laundering actions—is imperative. There is no doubt either that an adequate evaluation of the Fund's possibilities—in terms of its mandate and its human and financial resources—to effectively contribute in this front, is warranted.

With its expertise on financial matters and its nearly universal membership, the Fund is in an excellent position to make an invaluable contribution on AML work and on combating the financing of terrorism. We concur with staff that, taking into account the Fund's mandate and expertise, the involvement of the institution must concentrate on those areas that concern the integrity and stability of the international financial system. The Fund is well positioned to act as a facilitator of the actions undertaken to combat money laundering and the financing of terrorism in the international financial system. In this framework, we support a closer work relationship between the Fund and the FATF, and we welcome the initiatives that have arisen to incorporate developing countries into the FATF.

Turning to the question of the necessary human and financial resources of the Fund to make an effective contribution to the fight against money laundering and the financing of terrorism, we would like to emphasize that before measures are implemented, careful consideration must be given to the challenge posed by the resources needed for their implementation. The importance and the urgency of the necessary measures certainly requires consistency from all membership between the additional actions demanded on this institution and the required resources, if we really want these actions to be effective and that good results are delivered. Past experiences have shown contradictions between requests made on this institution for more action and work and the provision of adequate financial support.

We would caution on the risk of sacrificing other projects in order to implement the proposed AML and combating of terrorist actions, taking into account that, unless resources are adequate, changes might be needed in the functioning of the Fund in order to carry out those actions. Staff's comments would be appreciated.

We welcome the proposal to double the targeted number of OFCs assessments to be concluded per year, and we support the distribution of a

questionnaire based on the expanded staff AML methodology, and stress the importance that this questionnaire eventually covers all membership. The staff has provided us with an estimation of resource demands, and we consider this to be a first step in the consideration of the needed resources.

We would like to turn now to the involvement of the Fund on legal issues. On this area we must be careful to avoid going further than necessary, beyond the mandate of the institution, and stretching the Fund's resources in an unduly way. The staff document correctly states that last April this Board □ □when discussing an enhanced role of the Fund in the area of AML □ □ confirmed that it would not be appropriate for this institution to become involved in law enforcement activities. The same document affirms in paragraph 30 that the staff has already been involved in advising countries on AML legislation □ □as well as in the registration of nonfinancial intermediaries and the creation of financial intelligence units (FIUs). We would appreciate if staff could further elaborate on its involvement in advising on AML legislation, and if they consider that the Fund has the expertise to deal with this issue as well as with nonfinancial intermediaries and FIUs.

Indeed, staff is also proposing an amplification and expansion of the Fund-Bank AML Methodology Document to incorporate legal and institutional issues related to the effectiveness of financial sector policies on AML and anti-terrorism financing. We would ask staff additional comments on how a wider involvement of the Fund in legal matters will actually take place □ □and if there are already specific steps on this involvement □ □taking into account the differences among legal systems across the world.

Expertise on AML and anti-terrorism financing is difficult to find even for our institution, so we can expect an even more worrisome absence of this expertise in many developing countries. An assessment of the availability of expertise on this matter across membership would be very useful. Technical assistance on the part of the Fund will undoubtedly help to develop such expertise, but the needs around the world can be expected to be enormous. Staff's comments will be appreciated.

Finally, in Annex III, the staff document lists Guatemala as a FATF noncooperative country. With regard to this situation we are pleased to inform that on November 5 this year the Guatemalan Congress passed a new legislation against money laundering. In addition to severe sanctions against the responsible of committing this crime, the legislation creates an investigation office under the Superintendence of Banks to deal with this issue. With this action our Guatemalan authorities expect to be excluded from the list of noncooperative countries in the next meeting of the FATF.

With these remarks, we reiterate our strong support to the Fund further effective involvement in the fight against money laundering and the financing of terrorism.

Mr. Collins made the following statement:

I am grateful to the staff for producing a very clear and comprehensive report that responds very well to the needs of the moment. While I have some quibbles with the details of what is proposed, overall the recommendations go very much in the right direction. I can generally support all the recommendations in paragraph 38, with one or two reservations that I will mention.

As regards the original FATF 40 Recommendations, it is proposed that an additional 10 be incorporated in the draft methodology document, bringing the total that the Fund deals with to 29. This would enable the document to address the legal and institutional framework in which relevant financial policies and supervisory principles are applied. Some Directors object to this on the grounds that it would take the Fund too far outside its area of expertise; Mr. Callaghan comes out with an entertaining example of legal concepts that would apparently fall under this heading. I would say, however, that *dolus eventualis* is really *reductio ad absurdum* in this context. It seems to me that the legal and institutional framework is highly relevant to the maintenance of stability in the financial system. In any case, the assessment of those aspects will, in all probability, be carried out by FATF experts, not by the Fund staff. In fact, I have a good deal of sympathy for Mr. Cippà's suggestion that the methodology document should be comprehensive and include all 40 Recommendations, on the understanding that the Fund would not be involved in the assessment of the law enforcement aspects; as I understand it, this is also Mr. Wijnholds's proposal. I appreciate that this goes beyond the consensus position of the Board reached last April so I will not push it further, but I do want to remind the Board that ROSC modules can cover areas outside the Fund's expertise so long as experts and some other relevant standing-setting bodies are appropriately involved; corporate governance and insurance sector standards are examples. In this connection, I would urge the staff to expedite progress on the development of an anti-money laundering ROSC in conjunction with the FATF. Although such work is going on, it seems to be on the back burner compared with other work, and it might be a good idea to increase the momentum on that.

Moving on to the 8 additional recommendations on terrorist financing recently adopted, I would make a corresponding point. It is certainly right that the three most relevant recommendations be included in the methodology document, but it is arguable that all 8 should be incorporated as several of them are interdependent and cannot be considered in isolation from the whole package. Once again, the actual assessments of the areas that are outside the

Fund's immediate area of expertise would have to be done by FATF experts, but it would be done within this umbrella of, as it were, the whole 48 recommendations.

As regards the number of assessments to be undertaken, I note the proposal to double the number of OFC assessments from 10 to 20 each year. This is one of the major motivating factors behind the request for extra resources. Of course, we favor this in principle, but a balance between speed and cost needs to be struck. I wonder whether it would be a better use of resources, if I may say, to use more Latin *festinare lente*, that is, to hasten slowly, and to devote more of any additional resources to technical assistance, the proposals for which we strongly welcome. Therefore, I have some sympathy for the point just made by Mr. Vermaeten and I think Mr. Cippà and Mr. Callaghan, to the extent that it is not really obvious that the most recent episodes have particularly anything to do with OFCs, although we do not really know. The apparent focus of the paper on just enhancing the effort on OFCs but not on onshore centers looks a bit strange; it ought to be on both really, which means probably that, given the need also for more technical assistance, getting up to 20 a year may not be feasible.

In connection with technical assistance, there needs to be coordination between the main bodies that will provide it, for instance the UN, the FATF, the Fund, and the World Bank, so that resources are used most effectively, and the Chancellor of the Exchequer will be making some suggestions on these lines to the IMFC meeting this weekend.

On the issue of whether anti-money laundering recommendations should be included as part of conditionality, on which the paper is silent, I think that a cautious approach is right, at least at this stage. It is appropriate to take into account in this connection the voluntary nature of codes and standards, and the conclusions we have reached so far in the debate on streamlining conditionality. That is not to say, however, that we should rule out ever using conditionality in this way. In egregious cases of noncompliance, it may well be appropriate. If such conditionality were imposed on a program country, however, it should be accompanied by sufficient technical assistance to help fix the identified problems.

I am pleased that Mr. Djojosebroto has amended his statement to remove a somewhat misleading statement about the U.K.'s attitude toward information exchange. For the record, however, let me set out the U.K.'s line on this topic clearly. First, exchange of information is vital to efforts to defeat terrorist financing, and we fully support FATF Special Recommendation 5, which calls for the provision "of the greatest possible measure of assistance" in anti-terrorist investigations. Second, we have no objection to law enforcers talking to regulators and obtaining assistance directly if the laws of the country concerned allow this. Third, in some countries exchange of

information has to be law enforcement to law enforcement or regulator to regulator for legal reasons; the gateways only permit that line of communication. I guess that is what motivated what was in Mr. Djojosebroto's statement originally. Finally, provided that these channels are used effectively, there should not be a problem in affording the greatest possible assistance and being compliant with the FATF recommendations.

Finally, I agree with Mr. Bennett that it would also be sensible to review progress, including with the questionnaire, in time for next year's Annual Meetings.

Mr. Kiekens made the following statement:

The Fund was created 57 years ago as "machinery for consultation and collaboration on international monetary problems" (Article I (i) of the Articles of Agreement). By adhering to the Fund, countries agree to comply with basic rules of good conduct in monetary and financial matters, and to accept multilateral surveillance of their compliance. From the beginning, the Fund has constantly adapted its activities to the various kinds of monetary and financial problems that have arisen. The international community has gradually been recognizing that globalization has not only brought unprecedented economic and social progress by increasing capital's freedom to find the most productive uses, but has also made it easier to conceal the origin of illegal profits and to finance illegal activities, notably including terrorism.

The international community is moving quickly to deprive money launderers and terrorists from using the international monetary and financial system to promote their schemes. The staff's proposals for a substantial role for the Fund in the international campaign against money laundering and terrorist financing are entirely consistent with the Fund's history of consulting and collaborating on international monetary problems, its nearly universal membership, its surveillance over countries' monetary and financial policies, and its present efforts to improve its surveillance of financial system stability and devise policies to combat money laundering. The interventions of other Directors clearly point to unanimous agreement in favor of adding the FATF's recommendations on terrorism financing to its present anti-money laundering (AML) activities, but some Directors disagree about enhancing the Fund's AML activities to include legal and institutional concerns other than those of a prudential nature.

I agree that the Fund's involvement cannot end with checking whether prudential policies include adequate AML and anti-terrorist measures. The Fund must also consider other legal and institutional issues that are important for this struggle. For example, it is not enough to make sure that a country's financial institutions are required to report suspicious transactions or know

their customers. There should also be a Financial Intelligence Unit to follow up on suspicious transactions, and effective legislation providing for the seizure of suspect funds and accounts held by money launderers and terrorists. The Fund is already scrutinizing the AML content of prudential policies, and it is logical and appropriate to extend the Fund's interest to other legal and institutional arrangements intended to ensure the effectiveness of prudential rules in combating money laundering and the financing of terrorism.

Except for the demand for full enforcement of the U.N. Convention against Illicit Traffic in Narcotic Drugs and Psychotic Substances, which Mr. Callaghan and Mr. Di Maio rightly consider excessive, the scope of the staff's proposed expansion of the Fund's current AML activities is appropriate.

The Fund's experience in assessing the stability of financial systems, including money laundering and terrorism financing, and the competence of the Monetary and Exchange Affairs Department and the International Capital Markets Departments, make the Fund well placed to play an active role in coordinating technical assistance for revising anti-money laundering and anti-terrorist financing measures to correct deficiencies noted during FSAPs or surveillance.

Finally, let me mention that the Hungarian authorities are taking the legal, administrative and other steps that were deemed necessary by the FATF for Hungary to qualify as a cooperating country. All the necessary legislation should be approved by early 2002.

Mr. Duquesne made the following statement:

First, let me thank the staff, especially the task force you lead, Mr. Acting Chair, for this comprehensive report laying out the issues for discussion and the options we have to decide on. As I strongly support a strengthening and an expansion of the Fund in combating money laundering and terrorism, I am glad that the staff presents such a proactive program covering almost every topic. Before discussing the staff report, I would like to emphasize again, if necessary, what was just said by Mr. Kiekens of the critical role that the international financial institutions, particularly the Fund, have to play in combating financial abuse and helping preserve the integrity of the international financial system.

The stress rightfully put now in combating the financing of terrorism should not lead us to forget other aspects of that issue, including the supervision of OFCs (even if they accept to contribute to the fight against money laundering or to the fight against the financing of terrorism) or to anti-money laundering actions in general.

Strengthening countries' capacity to combat money laundering should be an integral part of our agenda. Money laundering is a well-documented threat to the integrity of the international financial system and to our efforts to promote good governance and fight corruption worldwide. In the face of such a disruptive and destabilizing enemy, we cannot hide behind a discussion about the precise mandate of the Fund. There is no question for us that the Fund should not engage in law enforcement, but it has to play two crucial roles in anti-money laundering: first, identifying in a cooperative way with the FATF and other national institutions the gaps within the international financial system and the countries that are at risk; and second, helping countries, particularly those identified as "at risk," to build the capacity of supervisory and legal institutions in order to put in place appropriate anti-money laundering regimes. To be very blunt, let me just recall a personal memory. From 1991 to 1996 I was the head of the French delegation to the FATF and a member of the steering committee of that non-organization, and at that time the Fund wanted to come in and was a bit surprised by the fact that the FATF was reluctant to have the Fund involved in its operations. Therefore, I was a bit surprised, arriving three months ago, that the Fund was so reluctant to work with the FATF; anyway, it is assumed this is the past. Let me now focus on five points more precisely.

First, relations between the various assessments proposed by the staff should be better explained and clarified. There is a reference to a questionnaire, an expanded questionnaire and an anti-money laundering ROSC module. We support, of course, the development of an AML questionnaire and its inclusion in the Article IV surveillance process for the entire membership of the Fund. However, we do not think that such a questionnaire should be a substitute for a comprehensive ROSC module encompassing the FATF 40 Recommendations. These exercises are complementary and both should be implemented to ensure that there are no gaps in the surveillance process. Concerning the AML ROSC module, I agree with Mr. Wijnholds and Mr. Collins that it should cover both financial and supervisory aspect as well as the legal aspects of money laundering.

Second, I share the opinion that surveillance and technical assistance are very relevant instruments for addressing the AML issue. However, I believe that we should not constrain ourselves by limiting, *ex ante*, the list of our instruments. For instance, what should we do if it appears, through a questionnaire or through a ROSC assessment, that a country that has a program with the Fund is dealing with a major AML issue, which is putting its financial stability and the outcome of the program at risk? I am sure that in such a case it would be very difficult and dangerous to limit Fund action to surveillance and technical assistance. Therefore, we should not exclude any of the Fund's instruments, including conditionality, in our fight against money laundering and the financing of terrorism. Further cooperation between the

Fund staff and the FATF will be crucial in defining such a specific ROSC module as soon as possible.

Third, I agree with the proposition made by Mr. Bennett as well as Mr. Portugal and Mr. Junguito in their written statements that the staff should provide the Board with a progress report in time for the next Annual Meetings in Fall 2002, but to do so, in my opinion, the best option would be to examine and monitor the work done six months from now.

Fourth, I welcome the staff proposal to increase the number of OFC assessments. The Fund must have the necessary means to conduct such assessments and, in that regard, I support the proposed increase in staff dedicated to combating money laundering and the financing of terrorism.

Let me finish with two technical remarks concerning the annexes of the report. First, just to recall that the FATF has decided to include in the set of recommendations the 25 criteria that are applied to assess the situation of nonmember states. Second, the report says, “under the mutual evaluations for FATF members, noncomplying countries face no sanctions for noncompliance”. That is incorrect as noncomplying members can be excluded from the FATF, which you would admit is a kind of sanction.

Mr. Yagi made the following statement:

The events of September 11 have made it painfully clear that concerted action to curb money laundering and combat the financing of terrorism is essential if we have to secure global macroeconomic stability and a sound international financial system. The Fund, as a permanent institution that provides the machinery for consultation and corroboration in international monetary programs according to its Articles of Agreement, must step up its efforts on these issues. The paper for today’s Board meeting recognizes the need for the Fund to become more intensively involved, and it provides many useful suggestions, which we welcome. We thank the Acting Chair and members of the Task Force for preparing this report. To improve global action against money laundering and the fight against terrorism financing, however, we need to consider how to maximize the effectiveness and efficiency of the Fund’s contribution and to avoid overlap with the work of other bodies. This means that we need to adopt a pragmatic approach. Work should be prioritized based on the Fund’s comparative advantage and resources should be allocated accordingly. Let me now turn to the specific issues for discussion listed in the paper.

As I already mentioned, we strongly agree that the Fund should intensify its contribution in its core areas of expertise to the global efforts to combat money laundering and the fight against terrorism financing. I believe the set of measures presented in the Task Force report is a broadly appropriate

response as the measures utilize the Fund's unique framework of Article IV surveillance and the ROSC process. These frameworks enable the Fund and the international community to monitor and assess the situation of most countries and represent the substantial comparative advantage of the Fund. Nonetheless, as the paper notes, work is still in progress and needs careful monitoring in the light of new experience. I think we should review the progress made in one year's time, probably before the next Annual Meetings.

Given the significant impact that the effects of terrorism have on the global economy and the international financial system, it is both natural and important for the Fund to expand its surveillance and ROSC assessments to cover the financing of terrorism. We therefore support including aspects related to combating the financing of terrorism in the joint Fund/Bank AML methodology document. We also support the proposal to expand the AML methodology to cover relevant legal and institutional frameworks. As a future goal, we should aim at making the entire FATF recommendations, which will be revised and expanded to include aspects related to the fight against the financing of terrorism, regarded as an international standard and incorporated into the Fund/Bank ROSC module. In the meantime, I can go along with applying the expanded AML methodology in all FSAPs and all OFC assessments as well as accelerating the pace of OFC assessments.

Strengthening measures aimed at combating money laundering and the fight against terrorism financing will not be easy, especially for countries without strong enough financial, supervisory, and legal institutions. The importance of technical assistance therefore cannot be overestimated. There is a clear need for coordination among the different technical assistance providers in order to provide technical assistance effectively and efficiently. The Fund, which has the advantage of providing continuous technical assistance on financial sector and statistical issues to many countries, would certainly be able to play a significant role in the coordination effort. I agree that the Fund should increase its technical assistance to help countries implement measures for AML and combating the financing of terrorism identified by FSAPs and OFC assessments. I also agree that technical assistance be extended to cover legal and institutional frameworks, including the establishment of national FIUs and the preparation of AML legislation.

We agree that information sharing and cooperation among national and international authorities constitutes an essential element in our efforts against money laundering and terrorist financing. I also agree that these activities are primarily the responsibility of governments. There is an important role for the Fund, however, in identifying deficiencies through FSAPs and OFC assessments, in encouraging improvement, and in providing technical assistance, as necessary.

On the proposed questionnaire, while FSAPs and OFC assessments would provide a more comprehensive picture, owing to the fact that these assessments take place once every several years, we believe there is merit to assessing member countries' efforts more frequently based upon updated information provided by the questionnaires. As we strengthen our effort on AML and the fight against the financing of terrorism, the importance of cooperation with the FATF will increase in order to implement the measures efficiently and effectively. There is an urgent need for enhanced coordination toward having the new FATF recommendations as a whole, including the aspects concerning the fight against the financing of terrorism, recognized as an international standard for a ROSC module. Concerning the actual framework, various bodies, including the Bank, all of which have different expertise, need to coordinate their activities and cooperate fully to ensure high-quality work. Coordination among the different organizations to reduce redundancy is also important. This is particularly relevant to the assessments made by the FATF and the assessments made on the framework led by the Fund and the Bank. For example, it is conceivable that for countries that were recently assessed by the FATF, assessments under Article IV surveillance would use information obtained by the FATF and there would not be a need to send a separate questionnaire.

On the question of resources, while it is difficult to assess whether a particular figure presented in the paper is appropriate, we agree that some increase in resources is necessary. In order to minimize the increase, the necessity of the Fund's current allocation of resources needs to be reviewed. The demand for external experts will increase significantly, because of increasing technical assistance activities and assessments, and we are ready to provide some experts.

Finally, there are some points in the paper that need to be corrected before its eventual publication. While I will communicate with the staff bilaterally about the points on which we have concerns, I would like to note one point about the reference in paragraphs 16 and 18. These paragraphs mention the possibility that FIUs will play a leading administrative role in monitoring unsupervised financial intermediaries and other organizations. There has been no discussion so far on giving FIUs such a role, and it will be quite a big departure from the current mandate. Thus, to avoid misunderstandings, we suggest removing reference to FIUs on this issue.

With these remarks, let me conclude by thanking the Task Force again in providing useful recommendations for the Fund on taking part in this important global effort of fighting against money laundering and the financing of terrorism.

Mr. Al-Turki made the following statement:

There is now clearly more emphasis in the international arena on Anti-Money Laundering (AML) efforts and on combating financing of terrorism. Indeed, these issues are prominently featured in the IMFC agenda for next week. Therefore, it is only natural to revisit these issues with a view to strengthen the Fund's contribution. It should be stressed, however, that Fund's involvement in this area should remain directly related to its core activities. It is also important that the Fund's work on money laundering and combating terrorism financing be based on a cooperative and uniform approach. Here, I would like to note that Saudi Arabia has been among the first countries to enact an anti-money laundering law and has already implemented the U.N. resolution of September 28 on financing of terrorism activities. Turning to the issues for discussion, I will make a few comments.

First, I fully support the call for increased national and international cooperation and information sharing on financial transactions. Indeed, such cooperation is becoming more important not only for money laundering cases, but also for effective supervision of financial conglomerates and financial institutions that operate in many countries. Success in information sharing and intelligence among jurisdictions will depend on effective and reciprocal exchange of information between banking supervisors and with law enforcement agencies. The Fund's role here should be limited largely to technical assistance.

Second, the measures proposed in the staff paper appear broadly reasonable. However, in extending the Fund-Bank AML Methodology to legal and institutional issues, it is critical to be cautious so as not to go beyond the Fund's mandate and expertise. Indeed, as noted by Mr. Callaghan and Mr. Di Maio the devil is in the details. Staff elaboration will be appreciated. In applying the AML Methodology in FSAP and OFC assessments it is essential to take fully into account the varying financial systems and structures of countries. This also applies to the proposed voluntary questionnaire in the context of Article IV consultations. For example, in many developing countries there is much more reliance on cash transactions than in the industrial countries. Therefore, while depositing and withdrawing large sums of cash could ring warning bells in the industrial countries, this would be routine in many developing countries. While on the subject of the questionnaire, I have concerns regarding further loading of the Article IV consultations before the staff and the Board had enough time to assess and refine the AML Methodology. Therefore, my preference is to hold on the questionnaire till we review this whole subject in at least a year's time.

Third, I fully support increased cooperation between the Fund, the Bank, and other bodies engaged in anti-money laundering activities especially the FATF. Such cooperation will enhance understanding of the role and

contribution of the Fund, reduce duplication, and help coordinate technical assistance. In this regard, it could be more useful for the Fund to prepare a ROSC module based on its AML Methodology and let FATF assess the other issues on its own. My concern is that preparation of ROSC modules jointly by the Fund and FATF could imply Fund endorsement of findings and recommendations in areas beyond the Fund's competence.

Fourth, I fully endorse increasing the provision of technical assistance provided that it is well coordinated and that the Fund remains focused on its core activities. I can also support a greater role for the Fund in coordinating such assistance.

Finally, the budgetary estimates of additional involvement by the Fund in anti-money laundering activities and combating terrorism appear to be highly underestimated. As I noted on previous occasions, it is essential to have a comprehensive estimate of the costs and to err on the side of caution. Our experience to date is that initial staff's estimates have fallen short of actual costs. Staff comments will be appreciated.

Mr. Quarles made the following statement:

The problems of money laundering and terrorist financing, if left unchecked, can have profound negative implications for the world financial system and economic development, as witnessed by the aftermath of September 11. The economic fallout from the terrorist attacks will delay the recovery in the U.S. economy, with detrimental effects for the rest of the world. The terrorist attacks also led to a flight to quality among international investors and contributed significantly to the drop-off in new financing to emerging markets in recent weeks. To prevent a recurrence of these events, taking steps to prevent terrorists from abusing financial systems to support their activities is of the highest priority for my authorities and should be for the Fund as well.

International cooperation to fight money laundering and terrorist financing is crucial, and the Fund has an important role to play in this effort. As described by Mr. Portugal, the Fund is a broad-based international institution with uniform surveillance activities and expertise in financial sector issues and payments systems. These attributes allow the Fund to add key elements to the global effort to reduce money laundering and disrupt terrorist financing. The Fund has a variety of vehicles at its disposal in this effort, including standard surveillance work; assessments of financial sectors; conditionality; technical assistance; and research.

I would like to thank the staff and management for bringing this paper to the Board at this time. The staff lays out a good approach for addressing the issues of money laundering and terrorist financing, and implementation of

these measures will be a significant step forward for the Fund's work in these areas. At this stage of the discussion, I will not go through a detailed argument in support of each of the proposed measures. Instead, I would like to associate myself with the arguments made by Mr. Bennett and Mr. Portugal in their preliminary statements and by Mr. Collins and Mr. Duquesne today. I would like to note briefly our support for a number of proposals for the record and then turn to the budget implications and next steps.

The paper proposes a number of the ideas that we can support largely without qualification. These include: providing additional technical assistance, including on the issue of the ability of countries to cooperate with international efforts to fight money laundering and terrorist financing; conducting additional research, including on informal banking systems and alternative remittance and payment systems; the Fund has a role to play, with the World Bank, in improving countries' payments, settlements, and clearance systems; including an expanded assessment of anti-money laundering issues, including legal and institutional issues, in all assessments of financial sectors (FSAPs) and off-shore centers (OFCs); stepping up the pace of OFC assessments from 10 to 20 per year; following up on issues raised in FSAPs and OFC assessments in subsequent Article IV consultations; and preparing an expanded questionnaire that would be phased in to all Article IV consultations. The draft questionnaire in Annex VI is a good start.

There are a couple of proposals in the paper that merit brief elaboration.

The Fund staff has been consulting with FATF on the development of a ROSC module, which is likely to be finalized early next year. We expect that the Board would formally bless the ROSC at that time so that it is officially added to the list of Fund ROSCs. As Mr. Portugal stressed in this preliminary statement, this ROSC would be uniform, cooperative, and voluntary.

Regarding the Fund's anti-money laundering (AML) methodology, which is the basis for FSAP assessments, the paper proposes expanding the methodology to include legal and institutional aspects of the FATF 40 and parts of the new FATF 8 recommendations on terrorist financing. We support the extension of the methodology to cover these FATF recommendations.

Regarding conditionality, the paper does not call for an extension of Fund involvement in this area. The Fund would continue its involvement in cases in which it is relevant to the macroeconomic situation. We would simply note that, since September 11, it has become much more apparent that money laundering and terrorist financing can have large macroeconomic effects, and that should have an impact on the Fund's approach.

Let me add just a few other observations regarding terrorist financing.

First, the United Nations on Friday confirmed that a major financial and industrial conglomerate operating in over 40 countries is engaged in terrorist financing operations. The fact that this organization was engaged in largely unsupervised and unregulated financial activities is a good example of the need for continued strengthened supervisory efforts.

Second, I would like to note the importance of information sharing and exchange among all relevant agencies and organizations in all countries. Our authorities, particularly Secretary O'Neill, have emphasized the need to bring down the information barriers among agencies that deal in these areas in order to improve our efforts to combat the financing of terrorism.

Regarding the budgetary implications, the paper lays out a preliminary estimate of the staff resources and funding involved in the proposed effort. We acknowledge that the expansion of work in these areas will require additional resources. These estimates are a reasonable starting point for discussion. The Board should also consider ways to economize on staff resources in other areas, such as in preparing fewer selected issues papers. One concern is that the estimates suggest that little money is needed this fiscal year. As noted by Mr. Bennett, we expect that strong implementation of the proposals in the paper would imply that funds may be needed even this fiscal year, whether new or channeled from other sources.

In conclusion, let me note that rapid and comprehensive implementation of these proposals is crucial to success in these endeavors. The Fund can make a real difference if it focuses on ensuring that the Fund staff is properly trained and briefed on these initiatives so that they can provide the insightful analysis and recommendations on which we all have relied in many other areas. We call on management to oversee developments in this area closely to ensure that this effort yields real results and does not lead to pro-forma efforts to check off a 'money laundering box'. Furthermore, we support other Directors' calls for review of progress on this topic before the Annual Meeting next year.

Mr. Ismael made the following statement:

Recent events have confirmed that money laundering and the financing of terrorism can have major macroeconomic effects and affect financial stability. The Fund's initiative to enhance its contribution to the international efforts to combat money laundering and the financing of terrorism is quite appropriate. However, like other Directors, we too share the view that, to be effective, the Fund has to work closely with other specialized institutions that have a broader mandate in this area. We would reiterate our view that care should be taken to ensure that we remain within our core areas

of responsibility; namely, the Fund's contribution should concentrate on those areas that relate to the integrity and stability of the international financial system. Criminal investigations and law enforcement efforts are clearly beyond the scope of our mandate and should remain so. It is also important, as Mr. Al-Turki reminds us, that the Fund use a cooperative and uniform approach. On the Fund's role in this effort, we are of the view that we should follow the principles set out in our April 2001 Board meeting. In this regard, we think that the basic principles laid out at this meeting, outlined in paragraph 3 of the staff report, are a good starting point. Overall, we broadly support the thrust of the staff appraisal.

On the Fund/Bank AML methodology document, we can agree that it could be usefully expanded to include the relevant sections of the anti-terrorist financing recommendations of the FATF that are concerned with the supervision of the financial system. Like Mr. Shaalan and Ms. Farid, we agree with the inclusion of these international standards now being developed to combat terrorism financing that fall within the Fund's jurisdiction in the framework agreed to in April. We can go along with the proposal to apply the AML document in all FSAPs and OFC assessments as well as to step up the number of OFC assessments. We can also agree with the suggestion that Article IV consultation missions discuss a country's views on AML efforts and implementation issues.

However, the questionnaire that is to be distributed to members should be voluntary. We do not agree that a member should have to provide reasons for not answering it. On this issue, we share the views expressed by Mr. Djojosebroto and Mr. Low in their statement that this requirement is inconsistent with the voluntary nature of the exercise. Similarly, we agree with Mr. Bennett that the questionnaire should not enter into conditionality, and that the use of an FSAP or ROSC on money laundering to impose conditionality runs the risk of reducing interest in this important assessment by countries. As a result of the AML assessment, the Fund will put together a set of documents and reports on observance of the principles. Given the risk to the reputation of a country that publication of such a questionnaire entails, like Mr. Mozhin and Mr. Palei, we think that the authorities should be consulted and their consent should be sought before any information is released to other organizations or published. Like other Directors, we would underscore the need to provide participating countries with the appropriate technical support in improving their financial system and in assisting them to meet the requirements of the questionnaire. In this regard, we would note that many countries do not have anti-money laundering legislations and may need assistance in this area.

Finally, on the need for additional resources, we have noted the proposal by the staff and we can support it. We would again reiterate our view that technical assistance should stay within our area of expertise, and that

other specialized institutions should take over the provision of technical assistance in their own areas of expertise.

The Director of the Monetary and Exchange Affairs Department (Mr. Ingves), in response to questions from Directors, made the following statement:

Let me first start by saying that this paper very much represents work in progress, and it suggests a way of going forward using existing Fund procedures when it comes to how we go about doing this work. It is also fair to point out that all of this is fluid, in the sense that many other organization are also doing work in this field and things are likely to change over time. Having said that, let me comment on the large number of questions, and my colleagues can then fill in to the extent that I missed some of them.

On the methodology document, we had a meeting with the FATF working group about a week and a half ago on how to proceed. On the Fund side, we have produced the part of the methodology document that deals with the supervisory aspects of the FATF 40 Recommendations. For its part, the FATF will start providing the part that will cover the law enforcement aspects of the Recommendations, and they are in the process of doing so. By early winter we are going to have, as far as I can judge, a full document covering the entire FATF 40. In addition, part of this process is to deal with what I choose to call the FATF 8, the new terrorism financing principles. They are not going to be covered by the working group, but in the staff paper we have suggested that the Fund do some work addressing the relevant aspects of these particular recommendations, and we are going to do so. This puts us in a position where we can in January or February present to the Board an expanded methodology document, including relevant new aspects. We would actually be going about these issues in roughly the same way as we did after the Board meeting in April when we started work on the original methodology document. That would then provide Board members with the opportunity to take a look at what we have come up with. It also puts us in a position where we can expand on where to draw the line between the legal framework and law enforcement issues, because as Mr. Callaghan noted in his statement, the devil is in the details, and we need to take a closer look at how to draw the line in a proper way. Doing it this way, we can come back to the Board and deal with that issue at a later stage.

Mr. Collins also touched on the need to monitor onshore and not only offshore financial sectors, and he is correct. We are not only talking about activities going on in OFCs; the onshore aspect clearly needs to be included in all of this.

Mr. Duquesne asked about the questionnaire and how it is to be used, and whether it replaces some of the other activities going on. The view we have taken is to do something complementary to other assessments being

undertaken. If this work is being included in the FSAPs, we are going to do about 24 or 25 assessments per year. We have many, many more member countries than that. We also note that the FATF has done assessments among FATF members, and they have done assessments among a number of other countries, but they are far from having done assessments for the entire Fund membership. That left us with the conclusion that, on the one hand, it would not be enough to do this only in an FSAP context, but, on the other hand, it would not be proper either to send out immediately a questionnaire to the entire membership, because it would actually take some resources to answer the questions. Therefore, we came up with a suggestion to do this gradually over time in order to allow us to grow into this suit, so to speak, and do it in such a way that we can cover possible gaps if there are cases where no one else has conducted assessments and when there is very, very little information available on a country. It is also suggested in the paper to start this on a pilot basis with those countries where we are already testing the AML methodology, and that puts us in a position where we can find out in the course of the spring if the way the questions have been phrased actually make sense and if this is useful in the process.

It is always difficult to make resource estimates. We have clearly also pointed out in the paper that these estimates are very, very preliminary, and we have to come back to that in the course of the budget process. Clearly, some resources are going to be needed in the course of the spring, and we are talking about the present financial year, but it is still somewhat unclear as to the amount of resources that are actually going to be needed. Our expectation is that this can be dealt with in the course of the present budget process, and whatever extra resources will be needed can be requested from the Board in one form or another later.

In terms of reporting back to the Board, I mentioned initially the new expanded methodology document and how that is going to come back to the Board sometime in the spring. We also have the issue of working together with the FATF, because presently the FATF working group--and we are working very closely together with it--is in the process of producing this new methodology document that will be completed sometime in January or early February, and then that brings us into the next discussion about how to use that document. Clearly, once those discussions have been completed, it brings us to a position where we could come back to the Board, for example before the IMFC meeting this spring, with a report on where we are in the process when it comes to finding the proper modalities to bring this work forward.

When it comes to how to do the work as part of the FSAP process, normally when we do the FSAP, we do the central bank code on transparency, the Basel Core Principles, IOSCO principles, IAIS insurance principles, and the payment system principles. In some country cases we come to the conclusion that it is not proper to do a full assessment, for example because

the insurance sector is miniscule in a particular country. The idea here is to add the methodology document to these assessments, and then we would, of course, discuss with the countries in question where we do the FSAPs as to how they want to go about doing this and what views they have on doing the whole thing, including the money laundering part. So far actually, to my knowledge, when we do the FSAPs, it has been pretty much a non-issue for us to do the whole set of the basic standards that we normally use. So far there have not been really cases of what one could call cherry picking in all of this. I really do not expect serious difficulties in adding the anti-money laundering methodology to the work that we are undertaking.

There was a question about the words “potential macroeconomic relevance” and to what extent the questionnaire would be used to point out some of these issues. Maybe a better term would have been to look into the “preventive aspects” of dealing with all these issues. The intention was not to add something that is new compared to the way these issues have been discussed in the past when it comes to what is to be and what is not to be discussed in an Article IV context.

We are collaborating very closely with the FATF. We are participating in the working group on how to produce a complete document covering the entire FATF 40. In due course, as I said, we will come back to the Board to describe the outcome of that process. Having said this, though, it is important to keep in mind that the FATF itself is also in the process of revising the FATF 40. They also have a number of other working groups looking into various detailed aspects of what the new FATF 40 recommendations are supposed to look like. At this stage of the process the FATF chose to put forward their new 8 recommendations dealing with terrorist financing as separate ones. In due course I expect this process to converge so that in a year or a year and a half from now we ought to end up with a FATF document that is revised and covers everything. I also expect that process to evolve in such a way that those principles are going to be based on an underlying assessment methodology, which is what we are working on presently; because if it happens this way, and I think that is quite likely, then the way these assessments will be carried out would be very, very similar to the other types of assessments where we are using other types of standards and best practices. In addition, they are very often crafted in such a way that the recommendations themselves are fairly general, but that a number of technical documents are necessary that deal in greater detail with how the assessments are actually done.

On the issue of technical assistance, we have added 10 staff years of experts, and those would partly cover technical assistance. I have touched on the issue of the budgetary aspects of this, and we have to come back to that.

There was also a question about the FATF's resources. To my knowledge the FATF is in the process of discussing adding two more persons to the FATF Secretariat. It is important to keep in mind that the FATF, in that respect, is a very, very small organization, but when it comes to FATF resources and the further debate about that, I have to refer that to the FATF itself.

Mr. Collins asked the Director to confirm that the methodology document would ultimately cover both the original FATF 40 Recommendations as well as the new 8 recommendations. During FSAP or OFC assessment missions, Fund staff would be responsible for assessing the 29 recommendations identified in the paper, with FATF experts probably seconded from FATF member countries—responsible for assessing areas outside the Fund's area of expertise. That work would eventually be based on a stand-alone ROSC module that would encompass all 48 recommendations.

The Director of the Monetary and Exchange Affairs Department (Mr. Ingves) replied that a FATF working group was in the process of producing a complete methodology document that would cover all the 40 Recommendations. The Fund for its part had already produced a part of the document that covered 19 of the 40 Recommendations, which had been accepted by the Board and the FATF.

The staff was now proposing that the Fund extend its work into legal and institutional aspects, which would mean that the Fund would incorporate some more of the FATF 40 Recommendations into its part of the methodology document, the Director continued. If the Board agreed to that proposal, over the following few months the methodology document would be expanded, including by adding some of the 8 new recommendations. Any expansion, however, would not take the Fund into areas relating to law enforcement.

As the FATF was revising the FATF 40 and was likely to include the new FATF 8, it was not clear how many new recommendations there would be in the end, the Director explained.

Mr. Collins asked if the FATF was preparing an assessment methodology for those recommendations the Fund was not going to address. Would such a methodology be combined with the Fund's methodology so that a single methodology comprising all the FATF recommendations could be used as part of the FSAP by both Fund staff as well as appropriate experts assessing areas that were outside of the Fund's mandate?

The Director of the Monetary and Exchange Affairs Department (Mr. Ingves) confirmed that the work being done by the Fund and the FATF would eventually lead to one methodology document, hopefully by spring 2002. At that time both organizations would need to decide the modalities of carrying out the assessments.

The Acting Chair (Mr. Aninat) noted that the Fund and the Bank were working with the FATF to develop a single methodology consistent with the ROSC exercise that will

assess the original 40 FATF recommendations, once revised, as well as the 8 new recommendations, with each institution responsible for assessments in its area of expertise.

Mr. Daïri noted that the Fund should proceed carefully in its work with the FATF, as in the future the FATF could make some suggestions with which the Fund may not necessarily agree.

The General Counsel (Mr. Gianviti), in response to questions from Directors, made the following statement:

The terms law enforcement and legal institutional framework are often used in this paper without being defined, so maybe it would be useful to explain what it is that we have in mind. There are two possible meanings of law enforcement. The first one, which is clearly outside the role of the Fund, is the enforcement of legislation in individual cases, the prosecution of individuals, and the bringing up of evidence. The Fund has never been involved in such matters, and there is no intention of involving the Fund in prosecution, confiscation of assets, and so forth. The second one is somewhat different. Law enforcement could be understood to refer to the criminal law aspect of the institutional and legal framework. For example, what are the rules on detention of suspects? What are the rules on conviction? What are the rules on prosecution or extradition, and so forth. While there is no intention of involving the Fund in individual cases, there is no doubt that the effectiveness of the legal and institutional framework requires the adoption of effective means of enforcement. In fact, the whole system of anti-money laundering is based on a legal framework, which includes the possibility of sanctions. It is because there are legal requirements on banks that they have to report to their supervisors or to other authorities that certain transactions are suspicious or that certain customers are on the list of wanted criminals. If it were concluded that the Fund should not become involved in any form of law enforcement, including its institutional aspects, then it should not become involved in anti-money laundering because the whole purpose of the legislation against money laundering is law enforcement itself, in an institutional sense. Why do countries have rules against money laundering or against the financing of terrorism if not for the detection and prosecution of criminals and to deter criminal activities by confiscating their proceeds? The legal and institutional framework within which banks and other entities operate subjects them to certain rules and, if they fail to observe these rules, to certain sanctions. For example, what are the duties of a bank in the detection of suspicious transactions? What are its duties when it identifies a suspicious customer? Who should be informed by the bank? Is the bank allowed to inform the customer? Are the assets going to be frozen by the bank? These issues have to be addressed by the legal framework. All this leads to a very important question, which is now beginning to appear, namely, what is the liability of a bank to its customer if for some reason the courts find that a bank was in fact freezing the assets of someone who is not a criminal? This issue too has to be

addressed by the framework as, from the standpoint of a bank, it is important to know exactly what is the extent of its liability.

With respect to the institutional arrangements, the effectiveness of anti-money laundering legislation will depend to a large extent on timely and accurate exchange of information, both within the country and among countries. First, there has to be a flow of information among the agencies that are involved in money laundering within a country. This is why a number of countries have established financial intelligence units, which may be called by different names in different countries, but which bring together officials from concerned departments as well as the central bank. A second objective of financial intelligence units is the international exchange of information. That is, of course, a more sensitive matter, because prior arrangements have to be made between agencies, usually on a bilateral basis, to make sure that the flow of information stays within certain limits. There are questions of secrecy; for example, some units will agree to provide information to foreign law enforcement agencies or regulators, but not necessarily for tax collection purposes. These arrangements are the responsibility of the countries concerned, and their scope may vary, but without them there is no effective international cooperation against money laundering.

The staff representative from the Policy Development and Review Department (Mr. Kincaid) noted that it was not the staff's intention to try and modify the agreement the Board had reached last April as to how the macroeconomic relevance test would be applied in the context of the Fund's anti-money laundering work. The word "potential" therefore had no special implication.

Mr. Mozhin remarked that he could not presently support joint Fund/Bank missions that included FATF experts, as those could lead to joint blacklists. Such a proposal should be discussed at a later stage.

Mr. Callaghan noted that the issue of blacklists was moot as the approach that the three organizations would take would be consistent with the ROSC exercise. In addition, the ROSC exercise would take account of the different stages of countries' economic developments, and their administrative capacities, among other things.

Mr. Collins remarked that he supported fully the principle that the ROSC exercise and the FSAP be uniform, cooperative, and voluntary. The FATF would have to accept that principle if it wanted to continue collaborating with the Fund.

Would the expanded methodology document cover all of the FATF 40 Recommendations, Mr. Collins asked.

Mr. Lehmussaari remarked that he was not clear as to what the division of labor would be between the Fund, the Bank, the FATF, and the UN with regard to the assessments.

The Director of the Monetary and Exchange Affairs Department (Mr. Ingves) responded that the expanded methodology would be expanded to cover the FATF recommendations related to terrorist financing and aspects related to the legal and institutional framework. However, there would still leave areas within the FATF 40 Recommendations that needed to be addressed by a methodology, and that was where the FATF was playing a role.

The FATF had decided not to incorporate the new 8 recommendations into the original 40, the Director explained. As a result, the FATF had yet to develop a methodology for the new 8. The Fund would, if the Board agreed, start working to incorporate those aspects of the new 8 relevant to the Fund into the Fund's methodology, where appropriate.

The Fund would need to collaborate with other organizations to ensure that countries would not experience assessment fatigue and that assessments were properly coordinated, the Director noted.

Mr. Collins suggested adding a phrase to the penultimate bullet point on page 16 that clarified that the Fund and the Bank staffs could work closely with the FATF on that part of the FATF 40 that fell within their areas of expertise that would be covered by the expanded methodology document.

The Acting Chair (Mr. Aninat) agreed with Mr. Collins's proposal.

The division of labor between all the organizations involved needed to be considered in a flexible manner, the Acting Chair remarked. It needed to be recognized that experts could be available from different institutions and that there was no single institution, including the FATF, which had a monopoly on experts. The experts would therefore have to be used as flexibly as possible, and cooperation between national authorities was important.

Mr. Callaghan asked whether the idea for the Fund to incorporate more of the original 40 Recommendations was discussed with the FATF and whether those recommendations fell within the Fund's mandate.

The Acting Chair (Mr. Aninat) reiterated that the Fund and the FATF were in the process of converging their work into a single methodology that would result in a ROSC module. However, the modalities of the assessments that would be carried out based on such a ROSC module were yet to be discussed by the two organizations. The Fund should not object to using FATF experts as it regularly used outside consultants for other parts of its work.

Mr. Kelkar asked whether there would be joint Fund/FATF missions to member states.

Mr. Mozhin noted that the Board did not have to decide at that moment about the modalities of how the assessments would be carried out, including whether the Fund would

assess all or just some of the recommendations. However, that decision would need to be taken before any decision on possible joint staff/FATF missions could be considered.

Mr. Duquesne concurred that no institution had a monopoly on experts.

The FATF could only carry out assessments on its own members, and it was hoped there would be no disagreements between the Fund's and the FATF's assessments of those countries, Mr. Duquesne added. There would be no disagreements with respect to non-FATF members as the FATF would not be assessing them.

Mr. Mozhin observed that the FATF had been assessing nonmembers, which had resulted in the blacklisting of several non-FATF members. That approach had also been inconsistent with the ROSC exercise as it was not uniform, cooperative, and voluntary. He could accept an approach where the Fund and the Bank would design an anti-money laundering ROSC module with the participation of whatever experts they would need, with the FATF being invited to provide experts to address those parts of the FATF 40 that were not in the Fund's and the Bank's areas of expertise, Mr. Mozhin remarked. However, would the reports that resulted from such an approach be a Fund/Bank document or a joint Fund, Bank, and FATF report?

Mr. Duquesne noted that the nonmembers had not been evaluated on the basis of the FATF 40 Recommendations, but rather on 25 criteria that were different from the FATF 40. In addition, the 25 criteria were not evaluated per se like the FATF 40. Rather, they were more like a questionnaire where a certain number of negative responses automatically caused a country to be blacklisted.

The Acting Chair (Mr. Aninat) noted that there was broad support for the staff paper. The staff would be working toward converging its work with the work of the Bank and the FATF into a universal, common, cooperative, and voluntary methodology. Such a methodology would then be included as part of the FSAP process.

No decision had been taken with regard to staff missions, the Acting Chair (Mr. Aninat) remarked in response to Mr. Kelkar's question.

Mr. Kelkar said that he had reservations about joint Fund/FATF missions unless their modalities were discussed by the Board and were well defined.

The Acting Chair (Mr. Aninat) replied that once the process of finalizing the methodology and deciding on the modalities was completed, the Board would discuss the specifics of how the missions would be carried out.

Mr. Daïri remarked that the views of the Board from the April 2001 meeting should be accurately reflected in the current paper. For example, the Board had not recognized at that meeting that the FATF was a standard setter and that it should be strengthened.

The Acting Chair (Mr. Aninat) replied that the paper would be corrected, but that in the current paper there was a call to strengthen the FATF.

Mr. Collins observed that it was not for the Fund to call for a strengthening of the FATF.

It would be necessary to distinguish between joint Fund/FATF missions and missions where FATF-nominated experts would take part, which is what he preferred, Mr. Collins noted. For example, FSAP missions often included non-staff participants that were nominated by member countries.

Mr. Wei made the following statement:

At the outset, I would like to thank the staff for their hard work in preparing the document for today's discussion on the issues of anti-money laundering (AML) and combating financing for terrorism. I join previous speakers in emphasizing the importance of AML and combating financing for terrorism, especially in view of the tragic events of September 11.

China supports AML and combating terrorism financing. China's position has been manifested in the declaration against terrorism by the APEC summit leaders in Shanghai and its commitment to the UN resolutions on these issues. China has already ratified UN Resolution 1373 on anti-financing for terrorism. Like many others, we believe that the Fund should carry out its functions as prescribed in the Articles of Agreement and should become involved only within the boundaries set out in the Articles of Agreement, concentrating on its expertise and core functions, and leave others to do what they can do best according to their Charters. The Fund should devote every effort to its own mandate and avoid taking on responsibilities outside its areas of expertise or in the domain of other institutions. The appropriate division of labor should avoid duplication of effort, promote the efficient use of limited resources, and prevent one organization taking over the tasks of another. In this connection, I fully support the five principles for intensifying the Fund's involvement as proposed in Mr. Callaghan's very comprehensive preliminary statement. With these general comments, I would like to refer briefly to the key issues raised in the paper.

The document suggests that the Fund-Bank AML Methodology Document (Methodology) be amplified and expanded to include the relevant parts of FATF's anti-terrorism financing recommendations. The Board generally recognizes the FATF 40 as international standards on AML and has agreed that staff prepares a methodology on AML elements to provide guidance in making financial sector assessments. It would be preferable if the Board could have a general discussion of FATF's 8 new recommendations on combating terrorism financing as the international standards in the context of the Fund's core mandates before today's meeting. For example, some of the

new recommendations, such as No. 5, “providing assistance to other countries’ terrorist financing investigations”, go beyond the authorization of a central bank or Ministry of Finance. Therefore, we believe it is more appropriate that the Board discuss the extended methodology before it could be applied formally.

The Fund’s mandate is to promote policies that contribute to economic and financial stability, and sustained growth. As such, the Fund’s involvement in AML and combating financing for terrorism should also concentrate on areas of macroeconomic relevance, especially the financial sector. The Fund should refrain from involvement in the law enforcement activities of member countries where it has neither the mandate nor the expertise.

In AML and combating terrorism financing, exchange of information and coordination of actions on the domestic and international arena is very crucial. The law enforcement agencies in individual countries have more specific experience and expertise. The Fund does not seem to have the comparative advantage in providing micro-level guidance in this area.

One of the measures to be taken is to issue a questionnaire to countries about which information on AML and anti-terrorism financing regimes is not available. According to staff, completion of the document would be voluntary. However, “if a member chose not to complete the questionnaire, the Board would be notified, including the reasons given by the authorities”. Like Mr. Djojosebroto and Mr. Low and Mr. Daïri, such a proposal is not in line with the spirit of the voluntary approach. On the other aspect, we understand that FATF is considering sending a questionnaire to non-FATF countries. It seems that the Fund might duplicate the work of the FATF. As pointed out by others, member countries should not be overburdened by answering questionnaires issued by one organization after another. Some countries will begin to suffer from “assessment fatigue”. Or has FATF sought the Fund’s help in finishing its work? Information from the staff is appreciated.

We share Mr. Callaghan and Mr. Di Maio’s view that developed countries should “lead by example” in tightening their own financial systems. Moreover, emphasis could be heightened for FSAPs on developed countries.

On whether to address the issues of AML and anti-terrorism financing in the Article IV reports, we are of the opinion that these issues should only be raised when they are macro-relevant. We should not burden the Article IV consultation discussions or the reports with issues that are not macro-relevant.

If the Fund were to take on the tremendous task described in the document, the resource requirement would, of course, be significant. This chair does not want to see the new task compromise the resources earmarked for poverty reduction, which with more balanced global economic

development, could contribute to substantially combating terrorism. The Fund has a significant role to play in helping member countries strengthen their policies in this area of work.

We support the proposed increase in staff resources to enable MAE to pursue its activities.

Finally, we consider it is very important for the Fund to cooperate with other international institutions contributing to AML and combating terrorism financing, especially in providing technical assistance.

Mr. Padoan made the following statement:

Before I make my statement let me draw the attention of Board colleagues to something they might have already seen, which is an article that appears in today's Financial Times that seems to anticipate, to a large extent, the debate we are just having. Let me congratulate the journalists for their foresight. Certainly, however, this does not match what I view as correct communication.

Having said that, let me start by joining others in thanking the staff and the Acting Chair, in his capacity as Chairman of the Task Force, for providing us with a very comprehensive report, and express support to the actions proposed to strengthen anti-money laundering and the fight against the financing of terrorism. The proposed actions are fully consistent with the Fund's mandate to preserve global financial stability. As Mr. Bennett notes in his statement, and Mr. Quarles reiterated just a few moments ago, the September 11 attacks have shown that dramatic, while isolated, actions can have major macroeconomic consequences and also major implications for policies aimed at crisis prevention. Indeed, let me add that September 11 has dramatically changed the perspective of many of the areas the Fund is involved with, and certainly this applies to what we are discussing today.

We welcome the move toward a more comprehensive and broader approach to AML that will make action more effective as well as increase consistency and avoid duplication. Consistency of action does not necessarily imply identical action across countries, but requires that action rest on common, normative, organizational, and financial standards. Taking into consideration only issues of financial supervision would have limited the contribution of the Fund in the fight against the financing of terrorism, as it would not be sufficient to adopt [only Basel surveillance??] to fight money laundering. The FATF has been created to set up a consistent and effective set of AML rules toward the establishment of a true international standard. As Mr. Yagi, I believe that strengthening cooperation with the FATF will increase the efficiency of action of the Fund through the sharing of roles and tasks. FATF and Fund cooperation, in my view, is bound to be mutually

reinforcing and beneficial to both institutions. In this respect, I welcome very much the Director of the Monetary and Exchange Affairs Department's and the Acting Chair's appeal for an evolutionary approach to that cooperation, of which this document we are discussing today is certainly an important step forward.

We support the proposal that the Fund include legal and organizational aspects in AML assessments. As far as law enforcement is concerned, a careful division of labor between the Fund and the FATF is appropriate. The Fund should contribute to the definition of an efficient AML system according to its specific competencies and by fully exploiting all instruments at its disposal, and I welcome the staff's comments in this respect as they are reassuring and clarifying.

Of course, all this will put new pressure on the staff; we all recognize that. In this respect, we fully support their highly effective action, and we are ready to support requests for new resources once a more precise assessment is available taking into account cooperation with other bodies and use of outside experts. Therefore, I would like to see an update, if possible, on the resource requirement, one that is made available perhaps in an evolutionary perspective again.

An effective AML system and fight against the financing of terrorism is our ultimate goal. As there is agreement on this, we can discuss the role of the main instruments available to the Fund: research, technical assistance, surveillance, and conditionality. As the situation unfolds, all these instruments have to be used flexibly and without, a priori, commitments and limitations, and their use is to be monitored as regards further experience with the process on a case-by-case basis.

We are pleased with the decision to prepare a ROSC on AML as a way to strengthen further cooperation with the FATF, and we welcome the Acting Chair's note on the fact that FATF/Fund interaction has led to a change of views on both sides, which is leading to a convergence in some way toward a common product. I think that the final product, and I am referring to the ROSC here, will certainly meet the high standards the staff has made us familiar with, and will be based, as Mr. Portugal and Mr. Quarles as well as others have reminded us, on the principles of uniformity, cooperation, and voluntariness. We also believe that the Fund, given its experience, should be ultimately responsible for carrying out the ROSC exercise.

As Mr. Duquesne, I think that a questionnaire in the surveillance exercise, to be eventually extended to all Article IV staff reports, is a complement, not a substitute for ROSCs. Let me add also that as far as common missions are concerned, my view is that they should be discussed after a further assessment of the situation, and I think that Mr. Collins's

distinction between joint missions and the involvement of the FATF and other experts in missions is appropriate and useful, including to avoid assessment fatigue, which I do recognize might be a problem in the future. In this respect, technical assistance is a crucial instrument to countries with limited resources and capabilities to upgrade their AML systems to international standards. The role of the Fund in coordinating technical assistance with other institutions remains crucial, and I share views expressed already by Mr. Collins, Mr. Kiekens, Mr. Yagi, and others.

I am pleased to inform, but probably the Board has already been informed, that Italy has established a sub account with the Fund just a few days ago providing resources for technical assistance. My authorities feel that a share of these resources should be directed to supply technical assistance to work on AML and combating the financing of terrorism.

Finally, I agree with Mr. Bennett, Mr. Portugal, and others in suggesting that the next review should be set up before the 2002 Annual Meetings, with possibly an earlier review held on the occasion of the 2002 Spring Meetings.

The Acting Chair (Mr. Aninat) thanked the Italian authorities for their support.

Management had not been involved with the *Financial Times* article Mr. Padoan had referred to, the Acting Chair remarked.

Mr. Daïri noted that the questionnaire could not be designed to capture all the possible situations in member countries. In addition, it would be counterproductive if the need to implement anti-money laundering measures were to delay or prevent an extension of the banking network in underdeveloped areas or if it made even more complex some payments systems that were very inefficient.

Mr. Bischofberger made the following statement:

I would also like to thank Staff and Management for their swift response to the tragic events of September 11 in the context of the Fund's Anti-Money Laundering efforts. As noted by Staff, money laundering and financing of terrorism are closely related in that they can cause significant harm to the international financial system and beyond.

It is my overall impression that the staff has done a good job in exploring in what ways the Fund can reasonably contribute to the important endeavor of combating these activities. I fully agree that the Fund has comparative advantages which indeed allow it to make an important and indispensable contribution within its mandate and its areas of expertise. The approach proposed by Staff is, in our view, broadly appropriate. It should be implemented expeditiously but it should be adapted over time and in a flexible

manner, if needed. Unforeseen questions will most likely arise down the road, and it is important that the work in this area be revisited in the not-so-distant future. In fact, like some other Directors, I would propose such a review to take place even before the next Annual Meeting.

Given the sophisticated assessment tools already available to the Fund and given its universal and collaborative character, the Fund's most important contribution is arguably that of providing an organizing framework for carrying out assessments of anti-money laundering and anti-terrorism financing regimes. In addition, the Fund can offer valuable expertise in certain areas—most notably on prudential supervisory and regulatory aspects—and it should work closely with the FATF and other relevant organizations in the delivery of this expertise. The staff proposes to leave law enforcement issues to other bodies. We strongly support this view.

We also agree that while information sharing among authorities is of utmost importance, it is primarily up to member governments to promote such cooperation. More generally, like in so many other contexts, ownership is of crucial importance.

As regards the anti-money laundering Methodology Document and the scope of technical assistance, I agree that these can be reasonably expanded to include anti-terrorism financing aspects related to financial supervision. I also fully agree that the effectiveness of anti-money laundering and anti-terrorism financing regimes cannot be fully assessed without taking into account relevant legal and institutional issues as well as unsupervised financial intermediaries, as warranted. I take note, however, of Messrs. Callaghan's and Di Maio's and Mr. Cippa's respective views that more thought needs to be given to the details of the proposed expansion of the anti-money laundering Methodology and that the treatment of money laundering within an FSAP should not alter the agreed purpose and focus of the FSAP, namely that of financial system stability.

On the pace of OFC assessments, I would also favor more ambitious goals, given the large potential benefit of such assessments. Whether the pace can actually be doubled will obviously depend on the resources available. Similarly, a broad coverage of anti-money laundering assessments in the context of an FSAP seems generally warranted. On a related point, the results of anti-money laundering assessments should, in my view, be distributed widely among relevant bodies, in order to maximize the impact of the work done by the Fund.

Furthermore, I am pleased to learn about the enhanced collaboration between the Fund and the FATF in revising the FATF 40 recommendations and in completing an anti-money laundering ROSC procedure on the basis of a comprehensive methodology paper. The details of such a ROSC procedure

do not appear to be quite settled yet. Given the nature of the FATF 40, such assessments would probably to a considerable extent have to be carried out by outside experts. The modalities of such ROSCs should, however, be consistent with the Fund's common practices. This way, at some point, they could be fully integrated into the FSAP and the Article IV process.

Another question in this connection is how exactly the various types of assessments proposed by staff should relate to each other. For instance, the proposed questionnaire seems to be a sensible and pragmatic approach to achieve a broad coverage of anti-money laundering issues among the Fund membership in a relatively short time-span. It might also form a basis for conducting more in-depth anti-money laundering assessments, but it should not substitute for these, where they seem warranted. As regards ROSCs, these might eventually replace the assessments that are made on the basis of the anti-money laundering Methodology Document. Alternatively, both types of assessments might be retained and used for different cases, depending on the country-specific circumstances. Whichever modalities are agreed on, we must avoid duplication of work and make sure that the various assessment tools complement each other and are used in an efficient and well-targeted way.

As regards the Fund's activities more generally, the Article IV process should certainly be the overriding framework for ensuring effective surveillance of anti-money laundering policies. In addition, technical assistance will be needed to follow up in cases of obvious anti-money laundering deficiencies. This should be done within the Fund's core areas of expertise and in close cooperation with others. Furthermore, conditionality on anti-money laundering should not be ruled out as a tool to encourage members to implement reforms in this area. However, like Mr. Bennett, I do not think it would be helpful to engage in a debate about the possible use of conditionality at this stage.

Finally, on the resource implications, we should indeed face the fact today that the new activities will inevitably require additional funds. At this stage, I have no strong views on the specific estimates offered in the document. However, it is clear that they amount to more than just a marginal expansion. Therefore, whatever budgetary appropriations will be envisaged, it seems wise to phase them in gradually and to revisit them later on in light of the experience gained.

Mr. Lehmussaari made the following statement:

Let me say first that I would like to thank staff for this important report which with clarity illustrates the issue at hand and spells out the various steps the Fund could take in countering money laundering and the financing of terrorism.

There can be no doubt left that money laundering and financing of terrorism are global problems. In addition, combating them is within the mandate of the Fund, since they put economic growth at risk and may destabilize financial institutions and markets as well. It is clear that more rigorous efforts to strengthen international cooperation in anti-money laundering (AML) work and countering the financing of terrorism are needed.

We endorse intensified Fund involvement in anti-money laundering (AML) and countering the financing of terrorism and we support the measures presented by the staff and regard them as broadly appropriate. Moreover, like Mr. Quarles, we believe that an immediate implementation of these measures is necessary. After some experience about the effectiveness of these measures has been gained, an assessment should be carried out and discussed in the Board before next Annual Meetings, as already noted by several Directors. We also believe that more analytical work is needed in clarifying the importance of money laundering for macroeconomic and financial stability.

On the scope of this exercise we find it appropriate to expand the issues covered in the joint Fund-Bank AML Methodology Document to address the relevant legal and institutional issues. However, the Fund's key focus should continue to be on financial supervisory and regulatory aspects, while law enforcement aspects should be handled by the national authorities or other relevant parties. We also endorse the Fund's proposal to expand Technical Assistance in this field. Technical assistance should, however, I believe, be tightly linked to the findings of FSAPs and OFC assessments.

As regards coordination, we welcome the intensified cooperation between the Fund, the Bank, and the FATF in revising the FATF 40 Recommendations and adapting them to the ROSC process. In this context, the areas of cooperation and the division of labor between various participants, including the FATF, the Fund, the Bank and the UN should be clarified. And here I understand based on our discussions today that this road map is a bit blurry right now.

One of the key elements in countering money laundering and financing of terrorism is information sharing and cooperation among national authorities and appropriate international organizations. We believe that the Fund can be of assistance in this area, through institution building and technical assistance.

The planned questionnaire is intended as a first step in identifying problem areas. However, before undertaking this initiative we should find out whether the same information we expect to receive is not already available through information sharing with the FATF and/or regional AML groups. As there are several international institutions and groups dealing with the same issue, information sharing should be of utmost importance to avoid duplication and waste of resources.

The Fund should, to the extent possible, allocate additional resources to AML work mainly through redeploying of current resources. However, we can envisage a need for some specialized expertise to be added through external sources. I wonder whether additional staff years that were suggested at the Board meeting in April are included in the present suggestion to add 14 regular staff years to the Fund budget.

Finally, Mr. Chairman, I can support stepping up OFC assessments from 10 to 20 with the qualifications that the quality of these assessments should not be put at risk. As regards the difficult question of conditionality I broadly share the views expressed by Mr. Collins in the beginning of this meeting.

Mr. Le Fort and Mr. Maino made the following statement:

We welcome the work of the Task Force on the Fund involvement in Anti-Money Laundering and Combating the Financing of Terrorism that candidly reports on the links between AML and the Fund's expertise and mandate, considering the complementarities to the new undertakings of the Financial Action Task Force and the cooperation with the World Bank and other organizations. Money laundering, the financing of terrorism and other criminal activities are of utmost concern and require a firm and coordinated international response. Considering the Fund's important role in protecting the integrity of the international financial system, we agree to intensify the Fund's contributions in its core areas of expertise.

We fully recognize that criminal and illegal activities, whose financing compromise the reputation of financial institutions and undermine investor trust, are a source of institutional weakening and perverse incentives. As such, there is a role for financial regulation in the fight against these activities, and we concur with other Directors that their local and global negative externalities, not only in terms of international security but also in macroeconomic and financial stability, require a timely involvement by the Fund. Nevertheless, we join Messrs. Callaghan and Di Maio in cautioning that the role of the Fund not become over-extended beyond its area of responsibility and expertise. In this regard, a comprehensive review of the actions taken in one year's time would seem appropriate.

We consider of importance that all member countries—including mature as well as emerging and developing economies—participate in this endeavor to combat money laundering and the financing of terrorism. Our constituency represents a leading example of participation. In this respect, Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay are participating in the initiative of the South American Regional Financial Action Task Force, which is actively working in the implementation of anti money laundering

legislation and enhancing supervisory and monitoring systems consistent with FATF principles.

Regarding issues to be covered in the joint Fund-Bank Anti-Money Laundering Methodology Document we agree with the inclusion of both the relevant new FATF recommendations on anti-terrorism financing and the analysis of the legal and institutional framework. In addition, we concur that the methodology be applied in FSAPs and OFC assessments and be incorporated into the Article IV surveillance process. We also concur with Messrs. Portugal and Junguito to develop a questionnaire on a voluntary basis for the entire membership as a practical suggestion to address this matter in a uniform manner.

The increasing involvement of the Fund and the Bank in recent years in strengthening governance and institution building in member countries is a welcome recognition that without a strong institutional framework, the formulation and implementation of appropriate and timely policies would suffer.

The provision of technical assistance by the Fund plays an unquestionable role in correcting deficiencies in anti-money laundering and combating the financing of terrorism that may appear in FSAPs and OFCs assessments.

Moreover, additional technical assistance work is needed to assist in the preparation of AML legislation and the development of Financial Intelligence Units in cooperation with domestic regulators to ensure adequate cross-border information sharing and enhance financial sector supervision.

In sum, we consider that the Fund must be involved in strengthening governance, legal and institution building, and contribute to consolidating financial sector soundness, including international cooperation with relevant supervisory bodies and regulatory authorities to set standards against money laundering activities and the financing of terrorism.

Mr. Kelkar made the following statement:

Mr. Chairman, the recent events have made it amply clear that terrorism can not only destroy human lives, property, and peace within and among countries but also seriously interrupt global economic activity and financial stability. Therefore, I join my colleagues in fully supporting the view that the Fund should contribute to international efforts against money laundering and financing of terrorism, in accordance with its areas of core-competence and limiting to its mandate. Such support would be complementary to Fund's own efforts towards preserving the integrity and stability of the international financial system.

It is essential that we stick to the basic principle that we agreed to in April that the Fund should not get involved in the law enforcement aspects. Like Mr. Wijnholds, we also feel that Mr. Callaghan and Di Maio have summarized the five key principles for Fund involvement very clearly and we support their suggestion. We also share the view that primary responsibility of taking effective action against money laundering and financing of terrorism should be with the supervisory authorities and other relevant institutions of individual countries. The Fund can and should only play facilitating role. The FATF should remain in the lead and the Fund should coordinate its activities to help in these efforts with other standard-setters and the World Bank.

Mr. Chairman, we should thank Mr. Callaghan for his detailed comments, which staff should seriously consider in its work in this area. His comments that there is a possibility of Fund going beyond its mandate when it comes to the inclusion of additional FATF recommendations, particularly on the ratification and full implementation of the 1988 United Nations Convention Against the Illicit Traffic in Narcotic Drugs and Psychotropic Substances should be carefully considered before making any firm decision on this matter.

On the two approaches mentioned in paragraph 5, we too share the concerns expressed by Mr. Shaalan and Ms. Farid in their preliminary statement. We agree with the first approach that the Fund could extend the current efforts, focused on financial regulation and supervision, to incorporate areas germane to countering terrorism financing. These could be incorporated, as appropriate, in the AML Methodology document.

We have reservations on the alternative approach where the Fund's role is to be extended to legal and institutional issues relating to AML and terrorist financing. Fund should be extremely careful not to trespass into others organizations and duplicate their inputs.

We see a justification for Fund's involvement in the legal and institutional issues to the extent that it is to ensure that any new legal and institutional structures brought in would not restrict normal international financial transactions. Fund has the capacity and the expertise in this area and could play an advisory role without directly getting involved in the formulation and setting up of legal and institutional structures.

We support the extension of FSAP and OFC assessments to include more detail evaluation of financial policies and supervisory principles and legal and institutional frameworks relating to AML and combating of financing of terrorism.

While we have no objection for mentioning, in Article IV staff reports, of any new developments such as, among other things, setting of relevant

institutional mechanism and procedures to combat money laundering and terrorist financing, we do not see a compelling reason to go into any details on a continuing basis in Article IV consultations. The primary focus of Article IV consultations should not be shadowed by additional coverage of other than macro-relevant areas.

AML and combating of terrorist financing issues should not be dealt with under conditionality. The basic principle that 'macro-relevance' test should continue to be applied.

The following two sentences in paragraph 46, "The Fund would provide significant reinforcement to national authorities... Yet, the Fund's contribution will be limited" are very important. The Fund should have a clear interpretation of this limited contribution.

An expanded AML Methodology questionnaire would be helpful.

We support the proposed provisional estimate and the resource needs should be reassessed based on the experience gained.

Mr. Rustomjee made the following statement:

I would like to thank the staff for the detailed paper and the Task Force headed by yourself, Acting Chair, for the dedicated work in bringing the document to completion as urgently and as quickly as has been done. I will submit my full statement for the record and mention a few points.

First, the primary responsibility for strengthening work in all member countries on combating money laundering and the financing of terrorism should rest with the member countries themselves. In this context, I am pleased to advise that members of my constituency are taking active steps to implement UN Security Council Resolution 1373 and to bring national laws into conformity with the provisions of this resolution as scheduled by the end of this year. In addition, African members have been meeting to find ways to expand their AML and anti-terrorist financing regulations, and this work continues to be in progress.

We, nevertheless, recognize that the Fund as one among several partners in the quest to strengthen AML and anti-terrorist financing provisions has an important role to play, and we are willing to recognize this role for the institution. We can accordingly go along with the expanded approach for the Fund's involvement in the international efforts to combat money laundering and the financing of terrorism, provided that this does not go beyond the Fund's mandate or area of expertise. In view of the changed circumstances, however, and subject to the above proviso regarding our mandate, we are prepared to go along with the level of activity that goes beyond that envisaged

in our April Board decision. In this context, we are willing to support an augmented Fund role that would include legal and institutional issues relevant to financial and supervisory principles in the methodology document.

On the issue of respective roles of the Fund and the FATF, we are concerned, like many others, that the respective roles of the Fund and the FATF have not been clearly delineated or, I should say, fully delineated, particularly with regard to the preparation of the relevant ROSC on AML and terrorist financing. We agree with the proposal of Mr. Wijnholds and others that the ROSC ought to comprise a single document, including the financial and supervisory aspects as well as the legal aspects, although we see considerable difficulties in actually achieving this without clearer thought as to how we would get to that end. The FATF operates differently from the Fund, the latter being a near-universal, collaborative institution proceeding on the basis of voluntary participation, and the FATF is operating in a quite different way, and we see this as a fundamental point of departure that we do not see resolved when trying to disentangle the respective roles of the two institutions.

On the issue of the Bank/Fund methodology document, we welcome the staff's proposals, and we agree that we should expand the document as proposed by the staff to incorporate the anti-terrorist financing recommendations of the FATF and to apply the new methodology to forthcoming FSAPs. On this issue, we do support following up AML recommendations contained in FSAPs in the context of Article IV consultations where these are clearly macroeconomic relevant, although in regard to stand-alone Article IV consultations we would follow the approach taken by Mr. Kelkar. Like Mr. Callaghan and Mr. Di Maio, it would be important for us to understand better which recommendations would be incorporated into the expanded AML methodology document. As to the timing of the inclusion of these new recommendations, we believe that this would need to be carefully considered. We agree with many of the comments of Mr. Mozhin and Mr. Palei on this matter, including requiring a detailed explanation of the need for going beyond the 19 recommendations agreed to in April, if and when it is decided that this would be necessary. We believe that we need to include in the new methodology document the views of national authorities, and we look forward to the expanded methodology document when it comes out, I believe in January or February of next year.

On the issue of the number of OFC assessments, we support expansion from 10 to 20 per year as proposed by the staff, and we welcome the fact that this will mean that many of the larger, systemically more important OFCs can be assessed.

On the issue of the unsupervised financial sector, we do see merit in expanding the Fund's role to include, when relevant, the unsupervised

financial sector, as activities in this sector impact on the effectiveness of financial sector policies, including financial supervision, that are also germane to AML and anti-terrorist financing issues. We nevertheless see considerable downside risks in this approach and would urge extreme caution in entering this area of work for a number of reasons. First, we are not convinced that the staff has the resources to conduct this type of work with regard to the unsupervised financial sector. The staff may not also have the requisite expertise, although we would be happy to be guided by the staff whether or not this job can indeed be done. Second, the unregulated financial sectors in low-income countries perform several vital functions that are typically little recognized. They often serve as mediums for intermediation even though unsupervised. They often provide critical working capital for microenterprises and act as a savings vehicle when often there are no others available. It would be to the substantial disadvantage of these members if assessments of the unregulated financial sector were to disturb this fragile balance. We would urge that where judgment needs to be made whether or not to conduct work in this sector, full cognizance should be given to the concerns of the relevant members, and that this work should, of course, be conducted on a voluntary basis. We would urge that further research be undertaken even before we start bringing this sector within the ambit of the new approach.

On the issue of the budget, we welcome the costing approach provided by the staff, and we support the proposed staff increase as described. We do, however, find the proposals extremely conservative, and believe that they may be unrealistic. We would have imagined that the costs might well have been higher. Like others, we believe that it would be important not to raise expectations through this process.

On the matter of technical assistance, we welcome acknowledgment of the need to provide technical assistance to members, and agree on the areas where technical assistance is recommended to be provided. However, we are concerned that this new technical assistance will be transferred from other crucial needs, and we see no assurance in the paper that this will not occur. Indeed, we can see technical assistance being drawn from other valuable MAE and legal technical assistance services. We would strongly prefer to see, both in the document and in the summing up, some assurance that this will not be the case. We have particular concerns for low-income countries that are not systemically important and who, despite everything that is said to the contrary, are nevertheless finding their access to technical assistance in the Fund continually squeezed.

Regarding publication of technical assistance documents, we believe this should be voluntary. It is suggested that this matter could be discussed in the next technical assistance review. We find it unlikely that we would change our position that this should remain voluntary at that time. We share Mr. Bennett's view that some small countries are beginning, and I believe Mr. Wei

also mentioned this, to suffer from assessment fatigue, and technical assistance is particularly needed for these members. On coordination of technical assistance, we would prefer others to take on this responsibility.

Regarding the questionnaire, we support the preparation and distribution of the questionnaire on the initial basis as proposed by the staff, but we hope that the scope of distribution of the questionnaire could be expanded to include all members on a voluntary basis over time. We feel that this is particularly important as channels for money laundering and terrorist financing are likely to be found not only in systemically important member countries, but across the entire membership. We would urge that some modifications be made to the language of the questionnaire in order to ensure that it relates to financial supervision and that any sense that could be interpreted in the language to comprise law enforcement activity be removed. We share the concerns of Mr. Djojosebroto and Mr. Low on the issue of having to present an explanation if a member decides not to publish the questionnaire. We feel that this would impinge on a higher set of principles, namely the collaborative and voluntary nature of the Fund. We would also urge that the questionnaire be tailored to the circumstances of responding countries.

Finally, on the issue of the annual review, we support the staff's proposal to review progress in one year, although we would prefer the suggestion of Mr. Portugal and Mr. Junguito as well as others that such a review be provided both for the 2002 Spring and Fall meetings of the IMFC.

The Director of the Monetary and Exchange Affairs Department (Mr. Ingves), in response to further questions from Directors, made the following statement:

On the issue of the questionnaire, the idea is to make sure that the questionnaire is complementary to other work being done. I started out saying earlier that, having taken a look at the numbers, as far as I can judge the FATF has been active in one form or another in about seventy countries. That means that there are a large number of countries out there where no one has been actively dealing with these issues. When we do FSAPs we will get the same information, but clearly, given the full membership, there is a need to make sure that we have a tool available so that over time we can cover everybody in one form or the other. Doing it through the FSAP would take a very long time, so that is why we have suggested embarking on this path. But, clearly, all of this is based on the assumption that when we do the work we would first start out by finding out what is available elsewhere, and also discuss with the country to what extent local conditions matter in one form or the other. Therefore, the idea is not to start sending papers all over the globe without giving any thought at all as to how it is done.

Including the unsupervised financial sector clearly is adding something new. I agree that it requires caution on our side. I also agree with Mr. Rustomjee's remarks that in many countries there are highly legitimate activities going on in various parts of the economy that provide good value added for the economy as a whole. Again, this is one of the issues of where to draw the line and how to do it in a sensible way. Clearly, this is going to be very much dependent on circumstances in different countries. The issue of cash transfers is one of the aspects that we can look into.

Let me try to summarize a number of issues that have been raised in the course of the afternoon. On the expanded methodology document, if the Board agrees, the next step on our side is going to be to produce a revised methodology document that will include aspects relating to the legal and institutional framework as well as aspects relating to terrorism financing, and then come back to the Board to show you what it looks like. When we produce the document, we are not going to produce it in a vacuum. There are a number of experts in the world and there are different expert bodies dealing with these issues in one form or the other. Clearly, we would ask them and get their views pretty much in the same way as we have done when we produced a methodology that was agreed to following the Board meeting in April.

We will continue working together with the FATF to complete the methodology document, covering the whole of FATF 40, but as has been pointed out by many here today, a part of that methodology document is always going to include some FATF-specific issues that we are not going to deal with, because they go beyond our mandate.

We are also going to complete the questionnaire, because what is in the paper is a first draft, and some additional thoughts and discussions need to go into that so that we, in some sense, get the questions right, not too detailed but detailed enough so that it is possible to get a reasonable picture of what is going on, and we need to keep in mind in that respect the complementary aspect of this so that we do not create questionnaire fatigue.

What lies ahead of us is to think hard and creatively about the modalities that need to be put in place once the methodology document exists in its entirety. In due course, after discussions with the FATF, we will come back and report to you in the course of the spring what is coming out of that process so that it is commonly understood and accepted among everybody involved as to how this work is to go about. However, it is not possible to give the specificity of all of this today, because these discussions have not taken place yet; we are too early in the process.

Finally, we need to continue working on how to organize the technical assistance aspects of all of this, including, if the Board wants, the coordination aspects of this if we are asked to deal with that.

The staff representative from the Policy Development and Review Department (Mr. Kincaid) noted that the staff was not suggesting that countries had to provide reasons if they decided not to complete the questionnaire. The staff had simply proposed that it would notify the Board if a member chose not to complete the questionnaire and also provide the reasons given by the member, if any. The proposal was intended to provide members that chose not to complete the questionnaire an opportunity to give their reasons, and there could indeed be a variety of perfectly valid reasons.

The Acting Chair (Mr. Aninat) agreed that some members would require technical assistance to strengthen the monitoring of their financial systems, especially those with a sizable informal sector or unsupervised or unregulated sectors. However, technical assistance resources for that purpose should not be diverted from other areas.

Mr. Palei asked what was the current state of the Bank's work with respect to anti-money laundering. Would the Board be discussing the revamped FSAP?

The staff representative from the World Bank (Ms. Waxman) replied that Bank staff had presented a paper to the Bank Board the preceding week that was for information only. That paper had updated the Board on the staff's activities since September 11. As the issue of anti-money laundering and combating terrorist financing was not on the Development Committee's agenda, the staff had not yet addressed many of the issues that the Fund staff had in the paper before the Fund Board.

The Bank recognized that the Fund was the lead IFI with respect to anti-money laundering and combating the financing of terrorist activity, the staff representative continued. However, the Bank Board was expected to consider many of the issues the Fund Board was discussing after the Development Committee meeting.

The Bank looked forward to continuing its close relationship with the Fund on their joint effort in the area of anti-money laundering work and combating the financing of terrorism, particularly in connection with technical assistance and training, the staff representative said.

Mr. Daïri remarked that the work with respect to anti-money laundering and combating terrorist financing should be undertaken in a cooperative manner. The interests of all members should be kept in mind, and none of the measures being considered in those areas should be abused to affect adversely the interests of businesses, bank customers, or any countries. In addition, there should be no profiling of countries on the basis of regional or religious grounds, and the process should be undertaken on the basis of good faith by all those involved.

How to compensate or protect bank customers from undue delays or undue damage to their businesses if it turned out that they were engaged in legitimate transactions would need to be considered at a later date, Mr. Daïri continued.

He agreed with Mr. Bennett regarding the inclusion of anti-money laundering work in aspects of conditionality, and agreed with Mr. Mozhin and Mr. Palei on the issue of releasing technical assistance reports, Mr. Daïri noted.

Mr. Junguito supported Mr. Le Fort on the importance of including anti-money laundering aspects in surveillance work, not only when relevant to macroeconomic aspects, but also when such issues had an impact on other countries. In addition, the Fund's anti-money laundering work should cover all industrial countries as most money laundering occurred within their borders. In that connection, it was disappointing that there had been no mention of such issues in the recent U.S. Article IV staff report nor in the euro area staff report.

The Acting Chair (Mr. Aninat) noted that the Board would be presented with a progress report on the Fund's work in the area of anti-money laundering efforts and the combating of terrorist financing before the 2002 Spring Meetings.

Mr. Quarles remarked that a report on U.S. anti-money laundering practices had recently been circulated to the Board.

Mr. Duquesne noted that surveillance over anti-money laundering issues should be part of all Article IV staff reports.

In addition, anti-money laundering issues could have macroeconomic relevance for the country concerned, but they could also have cross-border macroeconomic relevance. Furthermore, Article IV staff reports often raised issues that were not necessarily macroeconomic relevant.

Mr. Daïri suggested that the proposed questionnaire did not ask whether a country had ratified or implemented UN conventions or resolutions as the UN had its own policies and procedures to determine which countries had ratified any of its conventions. Such questions could set a precedent for the Fund (having) to ask similar questions in other areas, and could also justify the idea of creating an overarching UN body to guide the work of the Bretton Woods Institutions, which some were advocating.

The Acting Chair (Mr. Aninat) replied that the sample questionnaire provided in the staff paper was for illustrative purposes, and it would be revised and streamlined.

The Acting Chair made the following summing up:

Executive Directors welcomed the opportunity to review progress in the Fund's work on anti-money laundering (AML) issues and to consider the Fund's role in combating terrorism financing in the aftermath of the events of September 11. They stressed that the Fund has a key role to play in combating money laundering and terrorism financing as part of international efforts to prevent the abuse of financial systems and to protect and enhance the integrity of the international financial system. Many countries and international bodies

are reexamining how to promote and enforce laws in these areas. In this context, there was broad agreement that the Fund needs to intensify its contribution to these international efforts, taking account of its mandate and expertise, and to work closely with the World Bank and other international bodies in order to avoid duplication of work.

Directors acknowledged the progress achieved in implementing the measures contained in the Board's summing up of April 13, 2001 to enhance the role of the Fund in the area of anti-money laundering. In particular, Directors noted that (a) an AML Methodology Document has been prepared, circulated for comment, and is being piloted; (b) work is underway with the Financial Action Task Force (FATF) to adapt the FATF 40 Recommendations to the Report on the Observance of Standards and Codes (ROSC) process and to review and update the Recommendations; and (c) technical assistance for AML has been intensified and in some cases extended to include, for example, the creation of financial intelligence units.

In considering how the Fund could extend its activities to limit the use of financial systems for terrorism financing, and to make its anti-money laundering work more effective, Directors stressed that the Fund's involvement in these areas should be consistent with its mandate and core areas of expertise. Recognizing that no single agency can resolve the problems independently, they emphasized that the Fund should adopt a disciplined and collaborative approach that respects the expertise, scope, and mandate of other relevant institutions, and that the roles of the various institutions involved should be clarified. Directors reaffirmed that the Fund's primary efforts should be in assessing compliance with financial supervisory principles and providing corresponding technical assistance. They confirmed, in particular, that it would be inappropriate for the Fund to become involved in law enforcement issues.

Directors generally agreed that the set of measures in the staff paper were an appropriate response by the Fund to the challenges facing the institution, in a way that is consistent with the Fund's mandate and existing practices. In particular, Directors supported:

- expanding the Fund's involvement beyond anti-money laundering to efforts aimed at countering terrorism financing;

- expanding the joint Fund/World Bank AML Methodology Document and Fund technical assistance to include aspects relating to anti-terrorism financing. In addition, Directors noted that effective implementation of financial supervisory principles depends on a sound legal framework and on other institutional structures. Thus, most Directors considered it appropriate to expand coverage to legal and institutional issues in the AML methodology. Some Directors considered that the methodology document should eventually

cover all the FATF Recommendations, both the original 40 (as revised) and the additional 8 on anti-terrorist financing. However, several Directors supported an evolutionary approach whereby the staff would work on expanding coverage of the assessment methodology to these issues while experience in the implementation of the present Methodology Document accumulates. The revised Fund/World Bank AML Methodology Document will be circulated to the Board as soon as it is ready;

- applying the expanded methodology in Offshore Financial Center (OFC) assessments (the pace of which would be speeded up), as well as onshore assessments in the context of Financial Sector Assessment Programs (FSAPs), though they stressed that these assessments should be done on a voluntary basis;

- circulating to all Fund members over time in the context of Article IV consultations a voluntary questionnaire (based on the expanded AML methodology). This exercise should be seen as a complement and not as a substitute to FSAPs and OFC assessments, and should inform the Article IV discussions and help set priorities for technical assistance. The results of the exercise could, with the agreement of the member, be made available to the Board;

- enhancing the Fund's collaboration with the FATF, including by working closely and rapidly with the FATF on a suitable assessment process that is compatible with the uniform, voluntary, and cooperative nature of the ROSC exercise, and by contributing to the revision of the FATF 40 Recommendations;

- increasing relevant Fund technical assistance—but avoiding diversion of technical assistance resources from their traditional uses—to correct deficiencies in countries' anti-money laundering and anti-terrorism financing regimes identified in the course of FSAPs and OFC assessments; and to develop a Fund role in the coordination of such technical assistance; and

- undertaking further research and analysis on relevant issues, including alternative remittance and payment systems, and corporate vehicles.

Directors further agreed that a key element in combating money laundering and terrorist finance is more effective information sharing and cooperation among national authorities and international agencies. They called upon governments to create mechanisms to enable collection and sharing, including cross-border sharing of relevant financial information with appropriate supervisory and law enforcement authorities. Directors stressed that primary responsibility for enforcement of anti-money laundering and anti-terrorism financing measures will continue to rest with national authorities.

Directors noted the preliminary estimates of additional resources needed to undertake these tasks. They generally agreed that these estimates could be used as a basis for moving forward. Refining these estimates and including the resource impact of the extra work, together with any possible offsets, should be examined in the course of the budget discussions for the next financial year 2003.

Directors believed that this package of further actions by the Fund, taken together, would constitute a substantive and measured response to the global challenges by enabling the Fund to make a more useful contribution to combating money laundering and terrorist finance.

Directors requested the staff to keep the Board informed on progress in this area, including on efforts to converge toward a single and comprehensive assessment methodology that is operational for the Fund's work, and to prepare a progress report for the Board by the Spring 2002 meeting of the International Monetary and Financial Committee as well as a paper on the outcome of the enhanced work program before the 2002 Annual Meetings.

DECISION TAKEN SINCE PREVIOUS BOARD MEETING

The following decision was adopted by the Executive Board without meeting in the period between EBM/01/115 (11/9/01) and EBM/01/116 (11/12/01).

3. EXECUTIVE BOARD TRAVEL

Travel by Executive Directors, by an Advisor to Executive Director, and by an Assistant to Executive Director as set forth in EBAM/01/133 (11/8/01) is approved.

APPROVAL: March 21, 2002

SHAIENDRA J. ANJARIA
Secretary