The IMF and the Fight Against Money Laundering and the Financing of Terrorism

“Money laundering and the financing of terrorism are financial crimes with economic effects. They can threaten the stability of a country’s financial sector or its external stability more generally. Effective anti-money laundering and combating the financing of terrorism regimes are essential to protect the integrity of markets and of the global financial framework as they help mitigate the factors that facilitate financial abuse. Action to prevent and combat money laundering and the financing of terrorism thus responds not only to a moral imperative, but also to an economic need.”

–Min Zhu, Deputy Managing Director of the IMF

Money laundering is a process by which the illicit source of assets obtained or generated by criminal activity is concealed to obscure the link between the funds and the original criminal activity. Terrorism financing involves the raising and processing of funds to supply terrorists with resources to carry out their attacks. While the phenomena differ in key ways, they often exploit the same vulnerabilities in financial systems that allow for an inappropriate level of anonymity and nontransparency in the execution of financial transactions. In 2000, the Fund responded to calls from the international community to expand its work in the area of anti-money laundering (AML). After the tragic events of September 11, 2001, the Fund intensified its AML activities and extended them to include combating the financing of terrorism (CFT). In 2009, the IMF launched a donor-supported trust fund to finance technical assistance in AML/CFT. In 2011, the IMF’s Executive Board reviewed the effectiveness of the Fund’s AML/CFT program and gave strategic guidance for the work ahead.

A threat to economic and financial stability

The international community has made the fight against money laundering and terrorist financing a priority. The IMF is especially concerned about the possible consequences of money laundering and terrorist financing on its members’ economies and on financial and external stability.

Money laundering and terrorist financing activities can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows. They may have negative consequences for a country’s financial stability and macroeconomic performance, resulting in welfare losses, draining resources from more productive economic activities, and even having destabilizing spillover effects on the economies of other countries. In an increasingly interconnected world, the problems presented by these activities are global, as are the links between financial stability and financial integrity. Money launderers exploit both the complexity inherent in the global financial system as well as differences between national anti-money laundering laws and systems, and they are especially attracted to jurisdictions with weak or ineffective controls where they can move their funds more easily without detection. Moreover, problems in one country can quickly spread to other countries in the region or in other parts of the world.

Strong AML/CFT regimes enhance financial sector integrity and stability, which in turn facilitate countries’ integration into the global financial system. They also strengthen
governance and fiscal administration. The integrity of national financial systems is essential to financial sector and macroeconomic stability both on a national and international level.

**International standards guide effective AML/CFT regimes**

The Financial Action Task Force on Money Laundering (FATF), a 36-member intergovernmental body established by the 1989 G-7 Summit in Paris, has primary responsibility for developing a worldwide standard for AML and CFT. It works in close cooperation with other key international organizations, including the IMF, the World Bank, the United Nations, and FATF-style regional bodies (FSRBs).

In order to identify steps that national governments should take to implement effective AML/CFT regimes, the FATF issued a list of recommendations which set out a basic, universally applicable framework of measures covering the criminal justice system, the financial sector, certain non-financial businesses and professions, and mechanisms of international cooperation. In February 2012 these recommendations were revised and updated (The FATF Recommendations). The work of the FATF, as well as the IMF’s in AML/CFT efforts, has been supported by the G-7 and the G-20, most recently in the context of initiatives to address the 2008–2009 international financial crisis and its aftermath.

**The IMF’s role in AML/CFT efforts**

During the past 11 years, the IMF’s efforts in this area helped shape international AML/CFT policies, and included over 70 AML/CFT assessments and a large number of technical assistance and research projects. The IMF’s broad experience in conducting financial sector assessments, providing technical assistance in the financial sector, and exercising surveillance over members’ economic systems has been particularly helpful in evaluating countries’ compliance with the international AML/CFT standard and in developing programs to help them address identified shortcomings.

The Fund’s AML/CFT program has evolved gradually in line with the international community’s response to money laundering and terrorist financing and a growing recognition of the importance of these issues for the Fund. In 2004, the Executive Board agreed to make AML/CFT assessments and technical assistance a regular part of IMF work. In 2006, the Executive Board confirmed the general principle that every Financial Sector Assessment Program and Offshore Financial Center assessment should incorporate a full AML/CFT assessment. The IMF cooperates with the FATF and the FSRBs, conducting AML/CFT assessments alongside the FATF’s and FSRBs’ peer evaluations of their members’ compliance with the FATF 40+9, providing technical assistance, and contributing to policy development and research.

On June 1, 2011, the Executive Board discussed a report reviewing the evolution of the Fund’s AML/CFT program during the past five years and discusses how the Fund could move forward in this area. The key outcomes of the discussion can be found here.

In 2009, the IMF launched a donor-supported trust fund—the first in a series of Topical Trust Funds (TTF)—to finance technical assistance in AML/CFT. Canada, France, Japan, Korea, Kuwait, Luxembourg, the Netherlands, Norway, Qatar, Saudi Arabia, Switzerland, and the United Kingdom have committed to collectively provide US$29.2 million over five years to the financing of the TTF to contribute to the strengthening of global AML/CFT regimes, using the Fund’s proven expertise and infrastructure. Three years after the beginning of the TTF, 53 projects were approved in 29 countries and 7 regional workshops have been undertaken.