



# Technical Assistance Report

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Project Number: 47315  
Capacity Development Technical Assistance (CDTA)  
April 2014

## Republic of Tajikistan: Strengthening the Anti-Money-Laundering Regime (Financed by the Cooperation Fund for Regional Trade and Financial Security Initiative)

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Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 25 March 2014)

Currency unit	–	somoni (TJS)
TJS1.00	=	\$0.2083
\$1.00	=	TJS4.8004

## ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	anti-money-laundering
CFT	–	combating the financing of terrorism
FATF	–	Financial Action Task Force
FIU	–	Financial Intelligence Unit
NBT	–	National Bank of Tajikistan
TA	–	technical assistance

## NOTE

In this report, “\$” refers to US dollars.

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## CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

<b>1. Basic Data</b>		<b>Project Number: 47315-001</b>	
<b>Project Name</b>	Strengthening the Anti-Money Laundering Regime	<b>Department /Division</b>	OGC/OGC
<b>Country Borrower</b>	Tajikistan	<b>Executing Agency</b>	National Bank of Tajikistan
<b>2. Sector</b>	<b>Subsector(s)</b>	<b>Financing (\$ million)</b>	
✓ Public sector management	Public expenditure and fiscal management		0.35
		<b>Total</b>	<b>0.35</b>
<b>3. Strategic Agenda</b>	<b>Subcomponents</b>	<b>Climate Change Information</b>	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
Regional integration (RCI)	Pillar 3: Money and finance		
<b>4. Drivers of Change</b>	<b>Components</b>	<b>Gender Equity and Mainstreaming</b>	
Governance and capacity development (GCD)	Public financial governance	No gender elements (NGE)	✓
Knowledge solutions (KNS)	Knowledge sharing activities		
Partnerships (PAR)	International finance institutions (IFI) Official cofinancing		
Private sector development (PSD)	Conducive policy and institutional environment		
<b>5. Poverty Targeting</b>		<b>Location Impact</b>	
Project directly targets poverty	Yes	Not Applicable	
Geographic targeting (TI-G)	Yes		
<b>6. TA Category:</b>	B		
<b>7. Safeguard Categorization</b>	Not Applicable		
<b>8. Financing</b>			
<b>Modality and Sources</b>		<b>Amount (\$ million)</b>	
<b>ADB</b>		<b>0.00</b>	
None		0.00	
<b>Cofinancing</b>		<b>0.35</b>	
Regional Trade and Financial Security Initiative C		0.35	
<b>Counterpart</b>		<b>0.05</b>	
Government		0.05	
<b>Total</b>		<b>0.40</b>	
<b>9. Effective Development Cooperation</b>			
Use of country procurement systems			No
Use of country public financial management systems			No

## I. INTRODUCTION

1. The government, through the National Bank of Tajikistan (NBT), submitted a request to the Asian Development Bank (ADB) in August 2013 for technical assistance (TA) to strengthen its anti-money-laundering (AML) regime and for combating the financing of terrorism (CFT) in Tajikistan. The TA has been developed jointly by the Office of the General Counsel and the Central and West Asia Department. A fact-finding mission was fielded from 18 to 22 November 2013, which agreed with the government on the final arrangements, cost estimates, and design and monitoring framework (Appendix 1).<sup>1</sup>

2. The TA is aligned with the country partnership strategy objectives to implement institutional reforms for private sector development, and reduce overall investment and business risks and costs.<sup>2</sup> It is also aligned with ADB's AML and CFT policy, which guides ADB support to developing member countries in establishing and implementing effective legal and institutional AML and CFT systems.<sup>3</sup> This TA falls under financial sector development, which is one of the five core areas of operations under Strategy 2020.<sup>4</sup>

## II. ISSUES

3. Despite a significant increase since the end of the civil war in 1997, Tajikistan has the lowest gross national income per capita in Central Asia (\$860 in 2012). Economic growth has been mainly driven by consumption, fueled by remittances. Investment is relatively low, at about 20% of gross domestic product, which limits future economic growth and job creation. Financing is expensive and short-term, limiting private investors' capacity to expand and compete internationally. The financial system needs to be strengthened to attract and intermediate savings to support investment and job-creating growth. This requires improved financial accountability, governance at some banks, and the elimination of directed lending.<sup>5</sup>

4. Tajikistan is vulnerable to the incursion of illicit money from drug trafficking and other crimes related to the multi-billion dollar opium economy in neighboring Afghanistan.<sup>6</sup> It is also on the "grey list" issued by the Financial Action Task Force (FATF).<sup>7</sup> This means that parties wanting to do business in Tajikistan are required to pay special attention to risks related to money laundering and financing of terrorism, which increases transaction costs. Tajikistan has agreed with the FATF on an action plan for addressing the deficiencies.

5. As part of addressing those deficiencies, on 20 October 2009, the President of Tajikistan established the Financial Intelligence Unit (FIU) within the NBT. In March 2011, the government introduced an AML and CFT law. In March 2013, Parliament amended the Criminal Code to address deficiencies related to the criminalization and confiscation of assets from money laundering and financing of terrorism activities. In June 2013, the government established an

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<sup>1</sup> The TA first appeared in the business opportunities section of ADB's website on 9 December 2013.

<sup>2</sup> ADB. 2010. *Country Partnership Strategy: Tajikistan, 2010–2014*. Manila.

<sup>3</sup> ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

<sup>4</sup> ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

<sup>5</sup> IMF. 2013. *IMF Mission Concludes the 2013 Article IV Mission to Tajikistan*. Press release no. 13/110. <http://www.imf.org/external/np/sec/pr/2013/pr13110.htm>.

<sup>6</sup> United Nations Office on Drugs and Crime. 2013. *World Drug Report 2013*. New York: United Nations.

<sup>7</sup> Financial Action Task Force. <http://www.fatf-gafi.org/topics/high-riskandnon-cooperativejurisdictions/documents/fatf-compliance-oct-2013.html>.

interministerial commission for coordination among the relevant agencies responsible for combating money laundering and the financing of terrorism.

6. Nevertheless, the FATF indicates that certain strategic AML and CFT deficiencies remain in Tajikistan with regard to (i) terrorist financing; (ii) the confiscation of funds related to money laundering, and identifying and freezing terrorist assets; and (iii) customer due diligence practices. The AML and CFT enforcement system is still relatively weak, including certain lack of capacity in law enforcement agencies, prosecutors, and the judiciary regarding the investigation and prosecution of money laundering and financing of terrorism offenses. Few criminal cases involving money laundering have been processed.

7. The FIU is implementing a new software database that will further facilitate reporting of suspicious transaction reports. Currently, financial institutions have separate access to the lists of persons and groups on United Nations and national sanctions via the NBT website, but the lack of an integrated database may prevent financial institutions from conducting thorough due diligence of potential customers. The NBT has recently issued instructions to financial institutions for the establishment of AML and CFT internal control systems. Since the database's operations and instructions are nascent, there is a need to review their consistency with international best practice.

8. In February 2012, the FATF introduced a new set of international standards to combat money laundering and the financing of terrorism.<sup>8</sup> Tajikistan is expected to comply with these recommendations. The first recommendation requires countries to identify, assess, and understand the risks they face related to money laundering and the financing of terrorism. Based on that assessment, countries should apply a risk-based approach to ensure that measures to prevent or mitigate money laundering and the financing of terrorism are commensurate with the risks identified. Tajikistan has yet to begin conducting a national risk assessment with regard to money laundering and the financing of terrorism. Tajikistan may also need to adjust certain laws and regulations to comply with the 2012 FATF recommendations.

### III. THE TECHNICAL ASSISTANCE

#### A. Impact and Outcome

9. The impact of the TA will be reduced risks and costs of investing in Tajikistan's financial system. The TA will also benefit ADB's recently approved projects in Tajikistan, which have financial intermediary loan components to be implemented by domestic financial institutions.<sup>9</sup> The TA outcome will be a strengthened AML and CFT regime in Tajikistan. This will help Tajikistan achieve a positive assessment in the next FATF mutual evaluation report.

<sup>8</sup> FATF. 2012. *International Standards on Combating Money Laundering and the Financing of Terrorism and Proliferation: The FATF Recommendations*. <http://www.fatf-gafi.org/topics/fatfrecommendations/documents/internationalstandardsoncombatingmoneylaunderingandthefinancingofterrorismproliferation-thefatfrecommendations.html>

<sup>9</sup> ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Grant and Administration of Technical Assistance Grant to the Republic of Tajikistan for the Access to Green Finance Project*. Manila; ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Administration of Grant to the Republic of Tajikistan for Building Climate Resilience in the Pyanj River Basin Project*. Manila.

## **B. Methodology and Key Activities**

10. The TA will deliver the following outputs: (i) national money laundering and terrorist financing risk assessment conducted; (ii) measures identified and recommended to address legal and regulatory gaps under the 2012 FATF recommendations; (iii) AML and CFT control system improved; and (iv) relevant staff from government agencies and financial institutions trained in AML and CFT related issues.

11. The TA will support the inter-ministerial commission in conducting a national money laundering and terrorist financing risk assessment. The assessment will use as reference the FATF guide on national risk assessments, and will ensure the participation of different stakeholders.<sup>10</sup> The TA will also identify and recommend measures to address legal and regulatory gaps to comply with the 2012 FATF recommendations. This step will require review of relevant laws, rules, regulations, and instructions. The TA consultants may also support the government to draft necessary rules, regulations, and instructions.

12. The TA will improve the AML and CFT control and reporting system, particularly by ensuring that NBT instructions to financial institutions comply with international best practice. The TA will organize around four workshops. Law enforcement agencies will attend two workshops—focusing on financing trends and typologies, investigation techniques, legal and evidentiary issues, and case preparation for investigation and prosecution—to be applied in their operational work. The other two workshops are intended for financial institutions and other reporting agencies to enhance their AML and CFT internal control systems. Relevant NBT staff will also participate in these workshops.

13. Implementation of TA outputs assumes that (i) the government will continue to sustain high-level commitment towards improving the AML and CFT regime, and (ii) staff from relevant institutions have incentives to participate in AML and CFT training and awareness-raising activities. There is a risk that certain groups who may benefit from money laundering activities would create obstacles to the implementation of the improved AML and CFT regime. The TA will cooperate with relevant stakeholders to ensure that the proposed improvements to the implementation of the AML and CFT regime will be effectively implemented.

## **C. Cost and Financing**

14. The TA is estimated to cost \$400,000, of which \$350,000 will be financed on a grant basis by the Cooperation Fund for Regional Trade and Financial Security Initiative<sup>11</sup> and administered by ADB. The government will provide counterpart support in the form of counterpart staff, office space for consultants, organization of conferences and workshops (including the costs of venues and meals, accommodation and transport costs of the participants, translators, as well as printing of training materials), and other in-kind contributions.

## **D. Implementation Arrangements**

15. The NBT will be the executing agency. It will establish a TA implementation unit to be chaired by the head of the FIU, with staff from relevant divisions of the FIU and other departments within the NBT. The consultants to be recruited under the TA will work closely with

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<sup>10</sup> FATF. 2013. *FATF Guidance: National Money Laundering and Terrorist Financing Risk Assessment*. Paris: FATF and the Organisation for Economic Co-operation and Development.

<sup>11</sup> Contributors: the governments of Australia, Japan, and the United States.

the NBT, particularly the TA implementation unit. Consultants will also engage regularly with the inter-ministerial commission on the output related to the national risk assessment, and with the Ministry of Justice on the output that will address possible legal and regulatory gaps under the 2012 FATF recommendations.

16. ADB will recruit individual consultants consisting of two international consultants (an international anti-money-laundering expert, who will also act as the team leader, and an international legal expert) for a total of 7.5 person-months and two national consultants (a national anti-money-laundering expert and a national legal expert) for a total of 12.0 person-months. The consultants will perform the tasks on an intermittent basis. ADB will also recruit resource persons for the workshops to be conducted under the TA. The resource persons may include staff from international organizations involved in this area, such as the United Nations Office on Drugs and Crime, the Eurasian Group on Combating Money Laundering and Financing of Terrorism, or the FATF. The outline terms of reference for consultants are in Appendix 3. The consultants will be recruited in accordance with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The TA will also cover the costs of interpretation and translation, and other miscellaneous costs. Disbursement under the TA will be in accordance with the *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). TA implementation will be from April 2014 until July 2015.

#### **IV. THE PRESIDENT'S DECISION**

17. The President, acting under the authority delegated by the Board, has approved ADB administering technical assistance not exceeding the equivalent of \$350,000 to the Government of Tajikistan to be financed on a grant basis by the Cooperation Fund for Regional Trade and Financial Security Initiative for Strengthening the Anti-Money-Laundering Regime, and hereby reports this action to the Board.



## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b></p> <p>Risks and costs of investing in Tajikistan's financial system reduced</p>	<p>Banks' authorized capital increased by 300% by 2020</p>	<p>NBT</p>	<p><b>Assumption</b></p> <p>Sustained economic growth</p>
<p><b>Outcome</b></p> <p>Strengthened AML and CFT regime</p>	<p>Tajikistan receives a positive assessment in the next FATF mutual evaluation report regarding compliance with the 2012 FATF recommendations.</p>	<p>FATF assessment report</p>	<p><b>Risk</b></p> <p>Certain groups who may benefit from money laundering activities may create obstacles to improving the AML and CFT regime</p>
<p><b>Outputs</b></p> <p>1. National money laundering and terrorist financing risk assessment conducted</p> <p>2. Measures identified and recommended to address legal and regulatory gaps to comply with the 2012 FATF recommendations</p> <p>3. AML and CFT reporting system improved</p> <p>4. Staff of relevant institutions trained in AML and CFT related issues</p>	<p>Risk assessment (with recommendations) is prepared and disseminated to relevant stakeholders</p> <p>Draft amendments to rules and regulations prepared</p> <p>Improved NBT instructions on internal AML and CFT control</p> <p>At least 75% of key agencies' staff participate in a full day workshop or training</p>	<p>NBT (or interministerial commission) report</p> <p>President's executive office work program documents for legislation</p> <p>NBT website</p> <p>FIU and consultant's reports</p>	<p><b>Assumptions</b></p> <p>The government will sustain a high-level commitment toward improving the AML and CFT regime</p> <p>Staff from relevant institutions have incentives to participate in AML and CFT training and awareness-raising activities</p>

<b>Activities with Milestones</b>	<b>Inputs</b>																
<p>1.1. Recruit consultants (by April 2014)</p> <p>1.2. Work with government counterpart staff on the template and schedule of activities for national risk assessment (by May 2014)</p> <p>1.3 Support government counterpart staff in reviewing existing legal and regulatory framework and in organizing workshops with relevant stakeholders (May – July 2014)</p> <p>1.4 Review draft national risk assessment prepared by government staff (by October 2014)</p> <p>1.5 Support dissemination of the national risk assessment to relevant competent authorities, self-regulatory bodies, and financial institutions (by April 2015)</p> <p>2.1. Review laws, regulations, and instructions supporting the AML and CFT regime (by October 2014)</p> <p>2.2. Prepare draft amendments to rules and regulations (by April 2015)</p> <p>3.1. Review existing NBT instructions on AML and CFT internal control systems in financial institutions (by July 2014)</p> <p>3.2. Propose different alternatives for improving the AML and CFT internal control systems (by January 2015)</p> <p>3.3. Support the FIU in improving the AML and CFT internal control system within the financial institutions (by July 2015)</p> <p>4.1. Prepare training and workshop materials on AML and CFT related issues (May–July 2014)</p> <p>4.2. Organize workshops with relevant stakeholders (August 2014–July 2015)</p>	<p><b>Cooperation Fund for Regional Trade and Financial Security Initiative<sup>a</sup>: \$350,000</b></p> <table border="1"> <thead> <tr> <th data-bbox="885 317 1274 348"><b>Item</b></th> <th data-bbox="1291 317 1435 373"><b>Amount (\$'000)</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="885 375 1274 407">International consultants</td> <td data-bbox="1356 375 1435 407">176.0</td> </tr> <tr> <td data-bbox="885 409 1274 441">National consultants</td> <td data-bbox="1356 409 1435 441">36.0</td> </tr> <tr> <td data-bbox="885 443 1274 474">International and local travel</td> <td data-bbox="1356 443 1435 474">36.0</td> </tr> <tr> <td data-bbox="885 476 1274 508">Reports and communication</td> <td data-bbox="1356 476 1435 508">5.0</td> </tr> <tr> <td data-bbox="885 510 1274 541">Seminars and workshops</td> <td data-bbox="1356 510 1435 541">60.0</td> </tr> <tr> <td data-bbox="885 543 1274 600">Miscellaneous and support costs</td> <td data-bbox="1356 543 1435 600">10.0</td> </tr> <tr> <td data-bbox="885 602 1274 634">Contingencies</td> <td data-bbox="1356 602 1435 634">27.0</td> </tr> </tbody> </table> <p>The government will provide counterpart support in the form of counterpart staff, office space for consultants, organization of conferences and workshops (including the costs of venues and meals, accommodation and transport costs of the participants, translators, and printing of training materials), and other in-kind contributions.</p>	<b>Item</b>	<b>Amount (\$'000)</b>	International consultants	176.0	National consultants	36.0	International and local travel	36.0	Reports and communication	5.0	Seminars and workshops	60.0	Miscellaneous and support costs	10.0	Contingencies	27.0
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AML = anti-money-laundering, CFT = combating the financing of terrorism, FATF = Financial Action Task Force, FIU = Financial Intelligence Unit, NBT = National Bank of Tajikistan.

<sup>a</sup> Contributors: the governments of Australia, Japan and the United States. Administered by the Asian Development Bank.

Source: Asian Development Bank.

**COST ESTIMATES AND FINANCING PLAN**  
(\$'000)

<b>Item</b>	<b>Amount</b>
<b>Cooperation Fund for Regional Trade and Financial Security Initiative<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	176.0
ii. National consultants	36.0
b. International and local travel	36.0
c. Reports and communications	5.0
2. Workshops	60.0
3. Miscellaneous administration and support costs	10.0
4. Contingencies	27.0
<b>Total</b>	<b>350.0</b>

Note: The technical assistance (TA) is estimated to cost \$400,000, of which contributions from the Cooperation Fund for Regional Trade and Financial Security Initiative are presented in the table above. The government will provide counterpart support in the form of counterpart staff, office accommodation, organization of conferences and workshops (including the costs of venues and meals, accommodation and transport costs of the participants), translators, printing of training materials, and other in-kind contributions. The value of the government contribution is estimated to account for 12.5% of the total TA cost.

<sup>a</sup> Contributors: the governments of Australia, Japan and the United States. Administered by the Asian Development Bank.

Source: Asian Development Bank estimates.

## OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

**A. Anti-Money-Laundering Experts** (1 international consultant, 4.5 person-months; 1 national consultant, 6.0 person-months). The international anti-money-laundering expert will assume the role of the team leader.

1. The international anti-money-laundering (AML) expert will preferably have an advanced degree in law, finance, or a related field, with at least 10 years of professional experience in the AML and combating the financing of terrorism (CFT) area. The expert should have demonstrated knowledge in developing AML and CFT internal control systems as well as experience in conducting or reviewing national risk assessment frameworks.

2. The national AML expert will preferably have a degree in law, finance, or a related field, with at least 3 years of professional experience in AML and CFT related areas. The national expert will work closely with the international expert and provide support on local conditions and materials.

3. These consultants will undertake the following tasks:

- (i) assess and understand the AML and CFT risks in Tajikistan;
- (ii) prepare, in coordination with the inter-ministerial commission and the NBT, the draft national risk assessment framework;
- (iii) engage in stakeholders' consultation on the national risk assessment framework;
- (iv) assess the effectiveness of the existing AML and CFT control and reporting system in Tajikistan, particularly the asset freezing mechanisms, including by liaising with the financial sector regulators and the financial institutions;
- (v) propose measures to improve the AML and CFT control and reporting systems;
- (vi) review the scope of training received by relevant stakeholders in the AML and CFT system over the last 2 years;
- (vii) propose topics to be included in training or workshops, including ways to integrate practical cases; and
- (viii) deliver training and workshops to staff from relevant agencies on AML and CFT related issues.

**B. Legal Experts** (1 international consultant, 3.0 person-months; 1 national consultant, 6.0 person-months)

4. The international legal expert will have a law degree, with preferably 10 years or more of professional experience. The expert should have extensive international experience in formulating or advising on the legal and regulatory framework related to AML and CFT, as well as experience working for, or with, law enforcement agencies.

5. The national legal expert will have a law degree, with preferably 5 years or more of professional experience. The expert should have relevant experience in formulating or advising on legal and regulatory framework and knowledge of AML and CFT-related issues.

6. These consultants will undertake the following tasks:

- (i) review the existing legal and regulatory framework in Tajikistan related to the AML and CFT regime;

- (ii) assess the gaps between the existing AML and CFT legal and regulatory framework and the requirements under the revised (2012) Financial Action Task Force recommendations;
- (iii) provide recommendations to ensure compliance of the Tajikistan AML and CFT legal and regulatory framework with the 2012 FATF recommendations;
- (iv) prepare training and workshop materials on AML and CFT-related issues, including identifying the latest money laundering and terrorism financing typologies relevant to Tajikistan and measures to address them; and
- (v) deliver training and workshops to staff from relevant agencies on AML and CFT related issues.