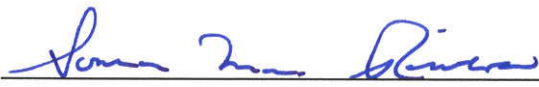


**STRENGTHENING THE INTEGRITY OF FINANCIAL SYSTEMS: IMPROVING
THE CAPACITY TO PREVENT MONEY LAUNDERING AND TERRORIST
FINANCING**

RG-T2224

CERTIFICATION

I hereby certify that this operation was approved for financing under the Transparency Trust Fund (AAF) by the Strategic and Eligibility Committee of the AAF on November 30, 2012. Also, I certify that resources from the Transparency Trust Fund (AAF) are available for up to US\$1,000,000 in order to finance the activities described and budgeted in this document. This certification reserves resources for the referenced project for a period of four (4) calendar months counted from the date of eligibility from the funding source. If the project is not approved by the IDB within that period, the reserve of resources will be cancelled, except in the case a new certification is granted. The commitment and disbursement of these resources shall be made only by the Bank in US dollars. The same currency shall be used to stipulate the remuneration and payments to consultants, except in the case of local consultants working in their own borrowing member country who shall have their remuneration defined and paid in the currency of such country. No resources of the Fund shall be made available to cover amounts greater than the amount certified herein above for the implementation of this operation. Amounts greater than the certified amount may arise from commitments on contracts denominated in a currency other than the Fund currency, resulting in currency exchange rate differences, for which the Fund is not at risk.


SR 

Sonia M. Rivera
Chief a.i.
Grants and Cofinancing Management Unit
ORP/GCM

Jan 8, 2013

Date

APPROVAL

Approved 

RM Ana Rodriguez-Ortiz
Manager
Institutions for Development Sector
IFD/IFD

Jan 14, 2013

Date

**“Strengthening the Integrity of Financial Systems: Improving the Capacity to Prevent
Money Laundering and Terrorist Financing”
A Regional Operational and Research Proposal**

RG-T2224

I. BASIC INFORMATION FOR TECHNICAL COOPERATION (TC)

- **Country/Region:** LAC region
- **TC Name:** “Strengthening the Integrity of Financial Systems: Improving the Capacity to Prevent Money Laundering and Terrorist Financing”
- **TC Number:** RG-T2224
- **Associated Loan/Guarantee Number:**
- **Team Leader/Members:** Roberto de Michele (Team Leader IFD/CMF); Francisco Demichelis (IFD/CMF); Olver Bernal (IFD/CMF); Juan Ketterer (IFD/CMF); Gloria Lugo (IFD/CMF); Nicolas Dassen (IFD/ICS); Bernardita Saez (LEG/SGO); y Stephanie Suber (IFD/CMF).
- **Date of TC Abstract authorization:** November 30, 2012
- **Donors providing funding:** Transparency Trust Fund (AAF)
- **Beneficiary countries:** All Latin America and Caribbean borrowing country members
- **Executing Agency and contact name:** IDB
- **IDB Funding Requested:** US\$ 1,000.000.00
- **Local counterpart funding, if any:** N/A
- **Execution period:** 36 months
- **Disbursement period:** 42 months
- **Required start date:** December, 2012
- **Types of consultants:** Individual consultancies
- **Prepared by Unit:** IFD/CMF, IFD/ICS
- **Unit of Disbursement Responsibility :** IFD/CMF
- **TC Included in Country Strategy:** N/A
- **GCI-9 Sector Priority:** Institutions for Growth and Social Welfare

II. OBJECTIVES AND JUSTIFICATION OF THE TC

1. Objectives

- 2.1 The overall aim of this TC is to support member countries in their efforts to prevent money laundering and terrorist financing, in compliance with the recently adopted International Standards on Combatting Money Laundering and Financing of Terrorism & Proliferation (FATF Standards), that replaced in February 2012 the 40+9 Recommendations of the Financial Action Task Force (FATF).
- 2.2 The FATF is an independent inter-governmental body that sets standards and promotes effective implementation of legal, regulatory and operational measures for combating money laundering, terrorist financing and other related threats to the integrity of the international financial system. The FATF is therefore a “policy-making body” which works to generate the necessary political will to bring about national legislative and regulatory reforms in these areas. The FATF also conducts a peer-review process that results in a Mutual Evaluation Report (MER). As a result of this process, countries may find whether or not they properly comply with the FATF Standards.
- 2.3 For the purposes of this technical cooperation, the specific objectives will be grouped in three broad components: assessments and national strategies, capacity building and regulatory reform

and knowledge products and dissemination. The specific objectives of this TC are to: (i) help countries design and implement a national coordination and cooperation plan, as defined by the FATF Standards (ii) help countries implement a risk-based approach to AML/CFT (iii) strengthen legal and regulatory reform in compliance with the FATF Standards (iv) improve the capacity of the state agencies to detect, prevent and sanction AML/CFT activities; and (v) increase and disseminate knowledge best practices on detection, prevention and sanctioning of money laundering.

2. Justification

- 2.4 There are several negative effects associated with money laundering: economic distortion, tax evasion, monetary instability, negative financial reputation, misallocation of resources, organized crime and insecurity, and greater volatility in international capital flows, interest rates and exchange rates, among others.¹ An environment that facilitates money laundering helps to expand corruption, which allows economic activity to shift from formal to informal markets, and the socioeconomic undertow of money laundering, may even lead to increased poverty. Given the secrecy related to criminal activities that generate illicit financial flows, measuring the problem is controversial. Although there are no precise figures, some scholars indicate that a rough estimate of money laundering in the region appears to be somewhere between 2.5 and 6.3 percent of annual regional GDP.²
- 2.5 As of October 2012, several countries in Latin America and the Caribbean are listed either as (i) jurisdictions with strategic AML/CFT deficiencies that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies or (ii) jurisdictions which have strategic AML/CFT deficiencies for which they have developed an action plan with the FATF, but need to complete the implementation of action plans expeditiously and within the proposed time frames. Bolivia and Ecuador are in the first category. Argentina, Nicaragua, Trinidad and Tobago and Venezuela in the latter. Honduras and Paraguay were also in this category, but have been recently cleared. Ecuador and Bolivia are listed as jurisdictions that have not made sufficient progress on their action plan agreed upon with the FATF. In this case, the most significant action plan items and/or the majority of the action plan items have not been addressed.³
- 2.6 There is also a need to learn from -and continue providing technical support to- countries with satisfactory performance regarding money laundering prevention in the LAC region, which includes the case of Chile and Colombia, among others. Being a complex and multi-dimensional technical matter, the control and prevention of money laundering can greatly benefit from activities that allow south-south collaboration in order to share knowledge and best practices.

International Standards

- 2.7 The FATF conducts a peer-review process to “assess whether the necessary laws, regulations or other measures required under the essential criteria are in force and effect, that there has been a full and proper implementation of all the necessary measures, and that the AML/CFT system as implemented is effective”. A Mutual Evaluation Report is then issued, with a detailed assessment

¹ For a literature review on the negative effects of money laundering, please see Annex V.

² Alberto Chong and Florencio Lopes-de-Silanes, 2007, “Money Laundering and its Regulations”, Inter-American Development Bank.

³ In the case of Paraguay, the Bank provided technical assistance to introduce the required reforms based on the Mutual Evaluation Report that helped the country in presenting the results achieved to the FATF and be removed from the list.

and a grading of compliance. As a result of this process, countries may be listed in a “black” or on one of the two “grey” lists, according to their level of compliance. Several member countries are now part of these lists.

- 2.8 The FATF recently approved the International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, (the Standards) which will replace the 40+9 Recommendations. In general, the Standards are more rigorous. By early 2013 a new Methodology for the peer-review process will be adopted and countries will be evaluated accordingly. As indicated by the FATF in the 2012 Annual Report, the “Requirements have been strengthened in areas which are high risk or where implementation could be enhanced. They have been expanded to deal with new threats such as the financing of proliferation of weapons of mass destruction and to be clearer on transparency and tougher on corruption. The Recommendations are also better targeted. Financial institutions and other designated sectors will be able to apply their resources more efficiently by adopting the risk-based approach to identify and focus on higher risk areas. There is more flexibility to apply simplified measures to low risk areas.”
- 2.9 In Latin America and the Caribbean, the FATF operates through two FATF style regional bodies (FSRBs): Grupo de Acción Financiera de Sudamérica (GAFISUD) and the Caribbean Financial Action Task Force (CFATF). These FSRBs operate under FATF rules and procedures. The Bank, through IFD/CMF, is an observer to the FATF, GAFISUD and the CFATF and has provided support to its member countries in improving their AML/CFT capabilities.
- 2.10 The Bank is becoming an increasingly relevant partner for its member countries in this process. The IDB has traditionally supported the improvement of the regulatory and supervisory capacity of the financial sector. In addition to the expertise on the financial sector, the Bank also has the advantage of providing a broader response, given its involvement in other sectors that are also part of the requirements of the FATF Standards, such as the judiciary, tax regimes and revenues agencies, public registries, among others. A growing demand from member countries is combined by the institutional decisions of some of the main international organizations and bilateral donors that are now focusing their efforts in other regions of the world or reducing their financial commitment, hence leaving an increasingly unattended demand for assistance.
- 2.11 IFD/CMF periodically attends to the FATF, GAFISUD and GAFIC plenary meetings, in order to follow the mutual evaluation process. As a result of the Mutual Evaluation Review (MER), the Bank provides assistance to (a) develop plans of action to implement recommendations from arising from the peer-review process and the Mutual Evaluation Reports, (b) providing assistance to develop and implement specific AML / CFT measures, as well as (c) helping Financial Intelligence Units to enhance their institutional capacity. IFD/CMF also makes it practice in its PBL to include information or components – if needed – related to AML/CFT.
- 2.12 These activities, in general, are supported via Technical Cooperation projects. At this time, countries that receive or are in the process of receiving assistance from the Bank on AML/CFT include Chile, El Salvador, Guatemala, Paraguay Peru and Trinidad and Tobago. The impact of some of these programs has been very positive. Beginning in 2013, countries in Latin America and the Caribbean will face evaluations under the recently approved International Standards on Combating Money Laundering and the Financing of Terrorism & Proliferation, and the new Methodology.
- 2.13 As indicated by the FATF, the future evaluations will move beyond technical compliance and put more emphasis on assessing the effectiveness of measures put in place to implement the FATF Recommendations. The new Standards and the Methodology have prompted several member

countries – notwithstanding their current status of compliance with the FATF - to request assistance to review and update their AML/CFT frameworks. One of the purposes of the requested assistance is to conduct assessments of the existing institutional, legal and regulatory capacity in each country. Such assessments provide detailed diagnostics of the supervisory capacity of the financial sector, the capacity to implement a risk-based approach across financial and non-financial activities, inter-agency coordination, institutional capacity for the prevention, detection and prosecution of money laundering and predicate offences and the ability of the different branches of government to develop and implement AML/CFT policies. These assessments as well as other activities financed with this technical cooperation will enhance the use of information by relevant stakeholders, including regulators, parties subject to regulation and supervisory agencies, among other public and private sector actors. The technical cooperation will follow the Bank's Access to Information Policy

- 2.14 For each country, the assessment will provide different results, given that issues differ across jurisdictions. These assessments present opportunities for the Bank to learn more about cross-sectorial and sectorial issues that may require assistance. They serve as logical updates to Bank's strategies on a country and hence they create the conditions for a more specific and targeted assistance. This Technical Cooperation will provide a critical support for countries to prepare or respond to the MER by either advancing results before the evaluation or responding to the results of such reviews. A more efficient approach to respond to these demand calls for a stable pool of resources to readily assist the requests from member countries.
- 2.15 This program is related to the GCI-9 sector priority Institutions for growth and social welfare. As stated in this objective, the presence of strong and effective institutions is a determining factor of a country's development. Effective regulatory capabilities are indispensable for the development of credit and financial markets which have a direct effect on the emergence of strong private sector institutions. Equally important is the introduction of effective and socially balanced tax systems. Furthermore, the role of well-functioning institutions responsible for citizens' security plays a critical role for democracy and social welfare. These requests are consistent with the countries' country strategies. In the Case of Costa Rica, the CS focuses on (v) combating drug trafficking and organized crime. In the case of Peru, the CS cites the focus anti-corruption policies and the need of strengthening institutional management capacities and accountability mechanisms at the central level. The CS of Chile also indicates the need to improve management in the central government. Finally the CS for Paraguay also identifies institutional strengthening as a priority area.

3. Description

- 2.16 This Regional Program is organized under three components: assessments and national strategies, capacity building and knowledge production and dissemination. The components in this TC represent key opportunities to deliver support to the ongoing process in each particular country to comply with the international FATF AML/CFT standards. Since each country has a different level of compliance with the Standards, interventions will follow a custom made approach.
- 2.17 **Component 1: Assessments and National Strategies.** This component is based on a two separate, but closely linked areas: one related to the development and approval of a National Coordination Plan (NCCP) and one related to the development and implementation of a risk-based approach, as requested by the FATF Standards. Each of these areas requires a specific assessment. The FATF calls for countries to ensure that policy-makers, the financial intelligence unit (FIU), law enforcement authorities, supervisors and other relevant competent authorities, at the policymaking and operational levels, have effective mechanisms in place which enable them

to cooperate, and, where appropriate, coordinate domestically with each other concerning the development and implementation of policies and activities to combat money laundering, terrorist financing and the financing of proliferation of weapons of mass destruction. In order to reach these results, the FATF and best practices recommend the development and approval of a National Coordination and Cooperation Plan. The development of such plan requires conducting an assessment to determine the state of the art of the countries AML/CFT main policies, regulations and institutions.

- 2.18 This area will support the following specific activities (i) conduct an assessment to identify the gaps in the key public policies, the mandate of the relevant public agencies and other related strategies designed to detect, prevent and sanction money laundering and terrorist financing, (ii) conduct an assessment of existing threats and vulnerabilities of the institutional and regulatory framework to prevent money laundering and terrorist financing to provide guidance for developing and approving a National Coordination and Cooperation Plan (NCCP) and to inform the risk-based approach to be implemented by the supervisory agencies. In connection with the NCCP, the FATF Standards require countries to identify, assess, and understand the money laundering and terrorist financing risks for the country, and define policy accordingly, including designating an authority or mechanism to coordinate actions to assess risks, and apply resources, aimed at ensuring the risks are mitigated effectively. Based on that assessment, countries should apply a risk-based approach (RBA) to ensure that measures to prevent or mitigate money laundering and terrorist financing are commensurate with the risks identified. Key activities for the second area include the following (i) review the regulatory framework to develop and implement a RBA (ii) a special training program for supervisory officials, compliance officers, and other public and private agents related to preventing and prosecuting AML/CFT activities based on the new RBA mechanisms (iii) establish information systems to allow implementing a RBA.
- 2.19 **Component 2: Capacity Building and Regulatory Reform.** The main purpose of this component is to strengthen the legal and regulatory framework in compliance with the FATF Standards, providing assistance for the review of laws, statutes and regulations in order to introduce amendments and updates when necessary to comply with the FATF Standards. This component also focuses on implementing information systems and process to support the supervisory capacity of the state in general and particularly of the agencies directly responsible for detecting, preventing and sanctioning money laundering and terrorist financing. Specific activities will include (i) analytical products to identify and propose required amendments to laws, statutes and regulations in compliance with the FATF Standards (ii) targeted legislative assistance to undertake legal and regulatory reforms (iii) systems and processes to improve the capacity to collect, organize and disseminate information.
- 2.20 **Component 3: Knowledge and Dissemination.** This component is related to the production and dissemination of knowledge as an instrument to maintain the technical capacity of beneficiaries and Bank staff working on AML and CTF activities. This requires staff from supervisory agencies and the Bank to attend training programs on the latest trends in AML and CFT activities. It also includes resources to help the Bank disseminate the results of its interventions and sharing lessons learned internally and with its member countries. Specific activities include: (i) workshops to exchange best practices among member countries in relation to the components of this technical cooperation, particularly mixing countries that have benefited from the Bank's technical assistance and those who are in the early stages of development of their ML/CFT framework. They also provide with a platform to discuss implementation challenges and ways the Bank can continue providing technical assistance, in close coordination with FATF regional bodies and other relevant organizations. (ii) papers and technical notes summarizing the results

of the Bank’s assistance on AML/CFT, indicating results and opportunities for improving, sharing lessons learned and leveraging on the Bank’s experience in other relevant sectors, such as tax regimes, judiciary reform, and citizen security (iii) mock-trial learning module for judges and prosecutors, to enhance their capacity to manage cases related to money laundering and terrorist financing (iv) a community of practice for the Bank and for the Bank’s clients to share information, knowledge and lessons learned, based on the existing communities of practice at the Bank and building on the experience of the Transparency in Finance Infoguide at the Bank’s website.

III. HOW WILL THE TC SUPPORT THE DESIGN AND/OR EXECUTION OF LOANS?

1. Description of the Associated Loans

- 3.1 This TC will provide upstream diagnostic/technical support for the origination, design and/or execution of IDB projects, so that public sector operations will benefit from assessments, training and capacity building on governance issues. For example IDB investment such as the Policy Based Loan for the Financial Sector Reforms in Trinidad & Tobago (“Strengthening of the Financial Sector Supervisory and Regulatory Framework, TT-L1024) and technical support to government for Financial Intelligence Units and institutional strengthening will be necessary.
- 3.2 For this Regional TC a single letter of request is not required. As demand for support is originated from member countries, letters of request or no-objection will be sought case by case. Individual transactions will follow the Bank’s standard policies and procedures. This TC will help support existing requests that are awaiting funding, such as Chile and Peru (see [Annex I](#) and [Annex II](#)).

IV. INDICATIVE RESULTS MATRIX

The overall aim of this TC is to support member countries in their efforts to prevent money laundering and terrorist financing, in compliance with the recently adopted FATF Standards of the Financial Action Task Force		This TC focuses on a wide range of activities associated with the implementation of the AML/CFT Standards adopted by the FATF. Given the complexity and diversity of topics covered by these Standards, no single index can provide an acceptable matrix of success. However, the peer-review process conducted by the FATF and its regional bodies will be used as a reference. Additional research provided by this TC will serve as additional indicator of progress.	
Components	Products	Suggested Indicators (Outcome)	Means of Verification
1. Assessments and National Strategies	(i) One assessment to identify the gaps in the key public policies, the mandate of the relevant public agencies and other related strategies designed to detect, prevent and sanction money laundering and terrorist financing,	New AML/CFT policies and guidelines.	NCCP published
	(ii) One assessment of existing threats and vulnerabilities of the institutional and regulatory framework to prevent money laundering and terrorist financing to provide guidance to the national strategy and to inform the risk-based approach to be implemented by the supervisory agencies	RBA policies, procedures and guidelines defined and implemented	Assessments produced and published
	(i) A review of the regulatory framework and develop a RBA	Training delivered	Laws and other regulations related to the NCCP enacted
	(ii) A special training program for supervisory officials, compliance officers, and other public and private agents related to preventing and	IT systems implemented	RBA policies adopted and enforced
			IT system operating
			Assistance to training

	prosecuting AML/CFT activities based on the new RBA mechanisms		
	(iii) An IT system to allow implementing a RBA.		
2. Capacity Building and Regulatory Reform	(i) An analytical product to identify and propose the required amendments in compliance with the FATF Standards	New Legal and Regulatory Framework Adopted in compliance with the FATF Standards Information produced by designated financial and non-financial entities, collected, organized, analyzed and shared appropriately. Number of cases initiated based on the information produced by the IT system	Laws and Regulations enacted An IT system for supervising AML/CFT operating
	(ii) Targeted legislative assistance to undertake legal and regulatory reforms.		
	(iii) A diagnostic of the existing IT capacity of the AML/CFT supervisory agency and other related agencies		
	An IT system to collect, organize and disseminate information on AML/CFT		
3. Knowledge Products Creation and Dissemination	(i) A workshop to exchange best practices among member countries (6)	Number of public and officials and private individuals responsible for AML/CFT trained on the new regulations, the RBA and other reforms introduced through this TC. Enhanced knowledge sharing by beneficiaries	RBA implemented in relevant public agencies Public officials trained in detecting preventing and prosecuting ML and FT schemes Community of Practice established Papers and technical notes published
	(ii) One paper and one technical notes summarizing the results of the Bank's assistance on AML/CFT, indicating results and opportunities for improving		
	(iii) One mock-trial learning module for judges and prosecutors, to enhance their capacity to manage cases related to money laundering and terrorist financing		
	(iv) Community of Practice		

V. INDICATIVE BUDGET

Component / Activity	Description	Consultant	Travel	Other	Total Funding
Component I Assessment and National Strategies		350,000	45,000		
Design and Approval of a National Coordination and Cooperation Plan		150,000	25,000		
	Gap assessments	50,000	10,000		
	Assessment of existing threats and vulnerabilities	70,000	7,500		
	Workshops to prepare and deliver the Gap and Vulnerability Assessments	30,000	7,500		
Develop a Risk-Based Approach		200,000	20,000		
	Analytical Reviews of the regulatory framework to define and implement a RBA	70,000	7,500		
	Special training program for supervisory officials, compliance officers, and other public and private agents related to preventing and prosecuting AML/CFT activities based on the new RBA mechanisms	40,000	7,500		
	IT system to support the RBA	90,000	5,000		
Component II Capacity Building and Regulatory Reform		330,000	45,000		
Legal and Regulatory		130,000	20,000		

Reform					
	Legal and regulatory analytical product to identify and propose the required amendments in compliance with the FATF Standards	40,000	10,000		
	Targeted legislative assistance to undertake legal and regulatory reforms.	90,000	10,000		
IT system to manage AML/CFT Information		200,000	25,000		
	A diagnostic of the existing IT capacity of the AML/CFT Supervisory agency and other related agencies	15,000	12,500		
	An IT system to collect, organize and disseminate information ⁴	185,000	12,500		
Component III Knowledge Creation and Dissemination		140,000	40,000		
	One workshop to exchange best practices among member countries	20,000	20,000		
	One paper summarizing the results of the Bank's assistance on AML/CFT	25,000	2,500		
	One technical note on best practices and latest trends in AML/CFT based on the Bank's assistance to member countries	15,000	2,500		
	Special training session for supervisory officials, compliance officers, and other public and private agents related to preventing and prosecuting AML/CFT activities on the new RBA policies and procedures	30,000	5,000		
	One mock-trial learning module for judges and prosecutors, to enhance their capacity to manage cases related to AML/CFT	40,000	5,000		
	A Community of Practice	10,000	5,000		
External Mid-term and Final Evaluation				20,000	
Contingencies				30,000	
Grand Total		820,000	130,000	50,000	1,000,000

VI. ADMINISTRATIVE ARRANGEMENTS

- 6.1 **Advisory Group and Focal Points:** An Advisory Group will be created to follow up and provide critical guidance to the execution of this TC. The heads of the Institutional Financial Sector and Markets (IFD/CMF) and Capacity of the State Division (IFD/ICS) – Juan Ketterer and Carlos Santiso. The designated focal points within these divisions will be Roberto de Michele (CMF/CGU) and Nicolás Dassen (IFD/ICS) who will jointly coordinate the related initiatives within their respective divisions. The Advisory Group will also invite as a focal point of Alberto Barreix (IFD/FMM). The chairs of the Advisory Group will periodically to provide strategic guidance on the execution of this TC. The activities of the Advisory Group do not have budgetary implications for this TC.

⁴ The purchase of equipment is an eligible activity for the Transparency fund, VI-D of its Operational Guidelines explains that “for public sector institutions, a reasonable amount of Fund resources may be used to procure equipment, when necessary for meeting project objectives”. In any case, Bank resources aimed at financing the purchase of equipment will not surpass 30% of the total budget. Rules set forth in GN-2470-2 are applicable to this operation.

- 6.2 **Monitoring arrangements:** The team leader of this project will coordinate monitoring activities with the above designated focal points in HQ, including 1) making semi -annual assessment of the result matrix here proposed, and 2) producing an annual report of the general development of the project according to the results matrix here proposed. No specific financing source is foreseen for this task. The budget provides for mid-term and final evaluation of the TC. Consistent with the practice of Transparency Fund, the team will seek input from the donor and the Technical Secretariat during the evaluation process. The results of the activities financed with this TC will be shared internally and externally.
- 6.3 **Expertise in Bank:** IFD/CMF specialists depending on the activity and may include additional technical expertise that are interested in participating in the development and execution of products associated with this Proposal.
- 6.4 **Evaluation report:** The project will be evaluated externally, in conformity to the Bank policies at the end of its execution. This evaluation will focus on the results and impact of the TC activities as outlined in the results matrix. No financial audit will be required for this TC as it will be executed by the Bank.

VII. EXECUTING AGENCY AND EXECUTION STRUCTURE

- 7.1 This Regional TC will be executed by the Bank (HQ). The project team is led by IFD/CMF who will supervise the TC components. The Bank already has some experience (see Annex D) and a number of institutional frameworks and policies (see Annex E) supporting work in this area. This Bank executed regional TC will avoid dispersed and sporadic support to clients. The activities relative to the procurement of goods will be executed by the beneficiaries.

VIII. MAJOR ISSUES

1. Internal Coordination

- 8.1 IDB's knowledge and expertise related to these issues crosses technical and functional boundaries and requires active cross-sector collaboration and a platform for consolidating expertise. This Regional TC will provide an internal focal point for the development of technical assistance focused on strengthening the integrity of the financial sector, as well as complementing this assistance with related issues, such as citizen security, integrity of the tax regime and transparency of the public and private sector.

2. Specific Technical Expertise

- 8.2 In addition to internal expertise that will be strengthened from work on this regional TC, the technical team has stated to identify a preliminary pool of external consultants as well as a relevant network of contacts with the FATF, the FSRBs, and IMF and the World Bank. Additionally, this TC will create an advisory group and a set of publications that together, will provide a source of technical expertise on these topics.

3. Government Buy-In

- 8.3 All technical support at country-level will require a letter of request or a non-objection letter from the Government as appropriate. Requests have been received from Costa Rica, Chile, Peru and

Paraguay. This TC will also seek to provide assistance to Caribbean countries, such as those where the Bank is already engaged in programs supporting the reform of the financial sector, strengthening financial supervision and related projects as explained in ¶ 2.15.

4. Multilateral Coordination

- 8.4 The CMF team coordinates AML/CFT technical assistance activities with their counterparts at the International Monetary Fund, the World Bank, and the Central American Bank for Economic Integration. Special attention is given to coordinate activities with the Financial Actions Task Force, and the FATF type regional bodies, GAFISUD and the Caribbean FATF.

5. Sustainability of the Project

- 8.5 This Regional TC will not be able to fulfill all the demands associated with this issue in the LAC region. Additional sources of financing will be identified to provide a constant flow of advisory services and technical assistance for the countries to comply with the new standards. The implementation of this TC will seek partnership in areas that require the combined strengths of multiple actors. In this regard, ORP/ORP involvement from the onset is important.

IX. EXCEPTIONS TO BANK POLICY

- 9.1 None

X. ENVIRONMENTAL AND SOCIAL STRATEGY

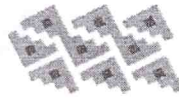
- 10.1 According to the Environment and Safeguards Compliance Policy (OP-703), the TC has been classified as category C. No potential negative environmental and/or social impacts of the TC were identified and therefore no mitigation strategy is required to address any impact. See [Safeguard Policy Filter Report \(SPF\)](#) and [Safeguard Screening Form \(SSF\)](#).

Required Annexes:

- Annex I: Letter of Request from the Government of Peru
- Annex II: Letter of Request from the Government of Chile
- Annex III: Terms of Reference for activities/components to be procured
- Annex IV: Procurement Plan
- Annex V: Conceptual Issues
- Annex VI: Indicative matrix of country demand and estimated associated costs



13586



APCI

SUPERINTENDENCIA DE BANCA
SEGUROS Y AFP
TRAMITE DOCUMENTARIO

Agencia Peruana de Cooperación Internacional

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http:// www.apci.gob.pe

"Año del Deber Ciudadano"

2007 MAR 14 PM 12 03

Lima, - 9 MAR 2007

OFICIO N° 06-2007/APCI-DE

Señor
Felipe Javier Tam Fox
Superintendente
Superintendencia de Banca, Seguros y
Administradoras Privadas de Fondos de Pensiones (SBS)
Presente.-

Asunto: Cooperación Técnica del BID
"Fortalecimiento de la
Administración de Riesgos en el
Sistema Financiero Peruano"
Refsu: Oficio N°4407-2007-SBS

Tengo el agrado de dirigirme a usted con relación a la Cooperación Técnica (CT) no reembolsable "**Fortalecimiento de la Administración de Riesgos en el Sistema Financiero Peruano**" que su Representada viene gestionando ante el Banco Interamericano de Desarrollo, la misma que ha sido presentada a la Agencia Peruana de Cooperación Internacional para su No Objeción.

Al respecto, adjunto al presente copia de una carta de esta Agencia dirigida a la señora Carmen Mosquera, Especialista Sectorial del BID, donde se expresa la No Objeción a la citada cooperación técnica.

Hago propicia la oportunidad para expresar a usted las seguridades de mi mayor consideración.

Atentamente,



Handwritten signature

AGUSTIN HAYA DE LA TORRE
Director Ejecutivo
Agencia Peruana de Cooperación Internacional

Se adjunta lo indicado.



Lima, 09 MAR 2007

CARTA N° 030 - 2007/APCI-GG

Señora
Carmen Mosquera
Especialista Sectorial
Banco Interamericano de Desarrollo
Presente.-

Asunto: No Objeción a Cooperación Técnica
del BID "Fortalecimiento de la
Administración de Riesgos en el
Sistema Financiero Peruano"
Refsu: Carta N° 5248/2006

Tengo el agrado de dirigirme a usted con relación a la Cooperación Técnica (CT) no reembolsable "**Fortalecimiento de la Administración de Riesgos en el Sistema Financiero Peruano**" que la Superintendencia de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones (SBS) viene gestionando ante su Representada, la misma que ha presentado a la Agencia Peruana de Cooperación Internacional para su No Objeción.

Al respecto, habiendo concluido con el análisis de la documentación recibida y teniendo en cuenta que la referida solicitud de cooperación técnica no reembolsable se enmarca en lo dispuesto por la Ley N° 27692, cuenta con la requerida declaración de disponibilidad de la contrapartida nacional emitida por el Superintendente de Banca, Seguros y Administradoras Privadas de Fondos de Pensiones, así como con su opinión favorable en el marco de las prioridades establecidas en el Plan Estratégico de la SBS, esta Agencia expresa su No Objeción con la citada solicitud de cooperación técnica.

Hago propicia la oportunidad para expresar a usted las seguridades de mi mayor consideración.

Atentamente,

Jacqueline Mori Chávez
Gerente de Gestión
Agencia Peruana de Cooperación Internacional

Santiago de Chile, junio de 2012

Carta N°

000053

Sr. Juan Antonio Ketterer
Jefe (i) de la División de Mercados de
Capitales e Instituciones Financieras
Banco Interamericano de Desarrollo

Ref.: Solicitud de Asistencia Técnica

Estimado Sr. Ketterer,

En mi calidad de Directora de la Unidad de Análisis Financiero de Chile, tengo el agrado de dirigirme a usted, a fin de expresarle nuestro interés en recibir asistencia técnica del Banco Interamericano de Desarrollo (BID) para el impulso, en conjunto con el Fondo Monetario Internacional (FMI) de una estrategia nacional de lucha contra el lavado de activos y el financiamiento del terrorismo.

Teniendo en cuenta la experiencia del Banco Interamericano de Desarrollo en brindar asistencia técnica en este ámbito a los países de nuestra región, consideramos que resultaría muy valioso para nuestro país sumar el respaldo de su institución para guiar este proceso.

El gobierno del Presidente Sebastián Piñera es consciente de la magnitud del esfuerzo que representa el desarrollo de una estrategia nacional de lucha contra el lavado de activos y el financiamiento del terrorismo, lo que queda de manifiesto en el oficio que adjunto, en donde el Ministro del Interior y Seguridad Pública Sr. Rodrigo Hinzpeter Kirberg, manifiesta el compromiso y participación en este proceso de todas las instituciones públicas y privadas con responsabilidades en la materia, entregando la coordinación interinstitucional al Departamento de Crimen Organizado del Ministerio del Interior en conjunto con la Unidad de Análisis Financiero.

Es nuestro deseo que la asistencia técnica aquí solicitada contribuya a fortalecer el sistema nacional de lucha contra el lavado de activos y el financiamiento del terrorismo a través de objetivos, metas y acciones concretas superadoras en los ámbitos de la prevención, detección/inteligencia financiera y represión penal, definiendo, además, responsabilidades y plazos para su implementación.

Cabe destacar que por decisión del Plenario de países de GAFISUD, y en reconocimiento al esfuerzo ya demostrado por nuestro país, desde enero de 2012, Chile tiene el honor de ejercer la Presidencia pro-tempore de GAFISUD, la cual fue recibida personalmente por el Subsecretario de Hacienda de la República de Chile el 16 de diciembre de 2011, como símbolo del compromiso político del más alto nivel para con la lucha contra el lavado de activos y el financiamiento del terrorismo.

Ante cualquier duda o cuestionamiento que amerite ser aclarado con respecto a la presente solicitud, le ruego se comunique al fono: (562) 4393010 o e-mail: tamara.agnic@uaf.gov.cl.

Solicitándoles respetuosamente tengan a bien considerar la presente, aprovecho la ocasión para extenderle mis más distinguidos saludos.

Atentamente,



Tamara Agnic Martínez
Directora de la Unidad de Análisis Financiero

Cc: Maria Camila Uribe, Representante del BID en Chile

Santiago de Chile, mayo de 2012

Sr. Sean Hagan
Consejero General y Director del Departamento Jurídico
Fondo Monetario Internacional
700, 19th Street NW
Washington DC, 20431
Estados Unidos

Solicitud de Asistencia Técnica

Estimado Sr. Hagan,

En mi calidad de Ministro del Interior y Seguridad Pública de Chile, tengo el agrado de dirigirme a usted a fin de expresarle el interés del gobierno de nuestro país en recibir asistencia técnica del Grupo de Integridad Financiera del Fondo Monetario Internacional, para el desarrollo de una estrategia nacional de lucha contra el lavado de activos y el financiamiento del terrorismo.

Teniendo en consideración la experiencia de los programas de asistencia técnica del Fondo Monetario Internacional (FMI) en respaldo al desarrollo de estrategias nacionales en nuestra región, consideramos muy conveniente contar con el apoyo de su institución para guiar nuestro recorrido durante el mencionado proceso.

El gobierno de Chile está consciente de la magnitud del esfuerzo que representa el desarrollo de una estrategia nacional de lucha contra el lavado de activos y el financiamiento del terrorismo, así como de la importancia que reviste la participación de todas las instituciones públicas y privadas con responsabilidad en la materia, coordinadas por la Unidad de Análisis Financiero (UAF) con el apoyo del Departamento de Crimen Organizado de este Ministerio.

Es nuestro deseo que la asistencia técnica indicada contribuya a fortalecer el sistema nacional de lucha contra el lavado de activos y el financiamiento del terrorismo a través de objetivos, metas y acciones concretas en los ámbitos de la prevención, detección, inteligencia financiera y sanción penal, definiendo, además, responsabilidades y plazos para su implementación.

Cabe destacar que por decisión del Plenario de países de GAFISUD, y en reconocimiento al esfuerzo ya demostrado por nuestro país, desde enero de 2012 Chile tiene el honor de ejercer la Presidencia Pro Témpore de dicha instancia, la cual fue recibida por nuestro Subsecretario de Hacienda el 16 de diciembre de 2011, como símbolo del compromiso político del más alto nivel para con la lucha contra el lavado de activos y el financiamiento del terrorismo.

Ante cualquier aspecto que amerite ser aclarado con respecto a la presente, le ruego se comunique con la señora Tamara Agnic, Directora de la UAF, representante de nuestro país ante el GAFISUD y actual Presidenta Pro Témpore de dicho organismo al fono (562) 4393010 o e-mail tamara.agnic@uaf.gov.cl.

Solicitándole respetuosamente tenga a bien considerar la presente, aprovecho la ocasión para extenderle mis más distinguidos saludos.

Atentamente,



Rodrigo Hinzpeter Kirberg
Ministro del Interior y Seguridad Pública
Gobierno de Chile

P A R A G U A Y

SISTEMA DE PREVENCIÓN DE LOS RIESGOS DERIVADOS DEL LAVADO DE ACTIVOS Y FINANCIAMIENTO DEL TERRORISMO

TÉRMINOS DE REFERENCIA

Consultor Internacional para el relevamiento del estado sobre vulnerabilidades en las áreas
de lavado de activos y financiamiento de terrorismo

I. ANTECEDENTES

En el marco del objetivo de cumplir efectivamente las 40 recomendaciones en contra del lavado de dinero y las 9 recomendaciones especiales sobre financiamiento del terrorismo emanadas del GAFI/GAFISUD, El Gobierno del Paraguay apunta al fortalecimiento del sistema de supervisión preventiva de los riesgos derivados del lavado de activos y financiamiento del Terrorismo.

El lavado de activos y la financiación del terrorismo trae graves consecuencias para la economía de los países y, en particular, para las entidades de los diferentes sectores de la economía, pues denta directamente contra su competitividad, productividad y sostenibilidad, en la medida en que pueden ser utilizadas para la comisión de este y otros delitos, originando aislamiento de los mercados nacionales e internacionales, incluida su inminente liquidación.

Por su parte, las autoridades supervisoras, entidades prestadoras de servicios o reguladas deben hacer ingentes esfuerzos en materia de prevención y detección en la comisión de este delito y otros delitos graves. Por ello, urge una eficiente y eficaz integración y diálogo entre las partes que intervienen en estos procesos, que coadyuven a la obtención de reportes de operaciones sospechosas que conduzcan finalmente en sentencias ejemplarizantes que desestimulen las acciones de los lavadores, que encuentran en que penas bajas o inexistentes justifican delinquir por la evaluación favorable de la relación costo-beneficio.

En respuesta a la solicitud del Gobierno del Paraguay, y reconociendo la importancia que este tema tiene en términos de impacto sobre las condiciones de competitividad globales del país, el Banco Interamericano de Desarrollo (BID) acordó financiar, parcialmente, con recursos de la Cooperación Técnica (ATN/MT-7926), una operación para brindar asistencia en fortalecer, sustancialmente, el marco operativo necesario para instrumentar, en forma efectiva, las acciones de prevención de lavado de activos y el financiamiento de actividades en el ámbito de actuación correspondiente a las Superintendencias de Bancos y de Seguros del Banco Central del Paraguay (BCP).

A su vez mediante esta asistencia técnica el BID busca comenzar con el proceso de preparación del Plan de Acción Nacional de Lucha contra el Lavado de Activos y el Financiamiento del Terrorismo que el Gobierno busca impulsar.

II. OBJETIVOS DE LA CONSULTORIA

El objetivo de la consultoría es la preparación de un reporte de los riesgos y vulnerabilidades de Lavado de Activos y Financiamiento del terrorismo en el Paraguay. Para realizar esta actividad el consultor deberá proveer soporte a las autoridades nacionales en la recolección de los datos e informaciones necesarias para realizar el análisis y completar el informe del País.

El país proveerá al consultor de las herramientas necesarias para la recolección de los datos, e identificar las Fuentes de información idóneas para la recolección de los datos.

El consultor asistirá al equipo de la Superintendencia y la SPRELAD en el análisis de los datos y la información levantada y los indicadores identificados y el uso de los mismos para la elaboración del reporte de los principales riesgos y vulnerabilidades en materia de Lavado de Activos y Financiamiento del Terrorismo en Paraguay y cuantificar el grado de actividad criminal estimado para el lavado de activos y financiamiento del Terrorismo.

Los trabajos de preparación del reporte se realizarán en coordinación con las autoridades competentes del Paraguay, el Banco Central del Paraguay y la SEPRELAD el consultor internacional efectuará dos misiones donde se realizarán las siguientes actividades:

1. Una primera misión en la cual tiene como finalidad principal explicar el proceso, validar la fiabilidad de los datos e información recogidos previamente, y recopilar datos e información adicionales. El consultor se reunirá con funcionarios y otras personas de Paraguay para explicarles el proceso que se utilizará para elaborar el informe, para mantener conversaciones acerca de la fiabilidad de los datos e información recogidos previamente, y para reunir información, incluyendo el caso los estudios - sobre la que se establecen los consensos acerca de los riesgos. El material recogido de esta misión serán analizados después de la misión con el personal del Grupo de Expertos para su uso en la preparación del informe de evaluación. Este análisis es probable que requiera que el consultor, enlace con las autoridades para aclarar aspectos de los datos y la información que fue recopilada y para obtener datos e información adicionales.
2. Una segunda misión para finalizar el informe. El consultor llevará a cabo discusiones adicionales con las autoridades para validar y completar los datos y requisitos de recopilación de información, y completar el trabajo de evaluación. El proyecto de informe final se completará durante la misión y finalizado el plazo de 2 meses a partir

de entonces. Misiones adicionales no se espera a menos que sean críticos para el éxito del proyecto; no más de una misión debería ser necesario para este propósito, en cualquier caso.

III. PRODUCTOS ESPERADOS

El consultor deberá presentar informes periódicos a solicitud de la Superintendencia de Bancos, incluyendo lo siguiente:

1. El informe final a presentar deberá tomar en cuenta la nueva recomendación 1 del GAFI y su nota interpretativa, a fin de que el producto pueda ayudar a Paraguay a tratar de cumplir con esa recomendación. Paraguay va a estar entre los primeros países a ser evaluados en la 4ta ronda y este producto será un insumo y en su momento permitirá llevar a cabo una evaluación de riesgos profunda como la que la estrategia nacional probablemente pida a través de uno de sus objetivos.

IV. DURACIÓN E INFORMES

Los trabajos deberán realizarse durante 30 días/ hombre, siguientes a la firma del contrato respectivo. El consultor deberá presentar un informe final a los 30 días de iniciado el trabajo, consistirá en un informe exhaustivo, conteniendo los aspectos sobresalientes de avance del proyecto y la conclusión de la consultoría, el mismo que recomendará las acciones a seguir para la preparación del Plan de Acción Nacional.

VI. CALIFICACIÓN DEL CONSULTOR

El Consultor deberá poseer una reconocida experiencia INTERNACIONAL en legislación financiera y aquella referida al lavado de dinero y bienes. Deberá contar con una experiencia mínima de cinco años en actividades relacionados con instrucción en materia de lavado de activos. Preferiblemente, deberá tener estudios de post-gradó en derecho y ciencias sociales. Deberán desenvolverse en castellano y tener facilidad para comunicarse y redactar en ese idioma. El lugar de trabajo será la República del Paraguay.

La selección del consultor se basará en el cumplimiento satisfactorio de los siguientes criterios: (i) experiencia en asesorías relativas al diseño de normas y regulaciones de prácticas susceptibles de lavado de dinero en el sector financiero ; (ii) conocimiento de las iniciativas internacionales para el control del lavado de activos; (iii) experiencia de trabajo en redacción de normas y reglamentos para el control del lavado de activos, para fiscalías, Superintendencias y Unidades de Inteligencia Financiera; y (iv) conocimiento de las iniciativas internacionales para el control del lavado de activos (40 + 9 Recomendaciones, Reglamento Modelo OEA/CICAD, directivas de Egmont, etc.).

VII. Monto y forma de remuneración

Se necesita los servicios de consultoría por el plazo del 1 de agosto al 30 de agosto de 2012. Para la realización del trabajo objeto de estos Términos de Referencia, el consultor recibirá la suma de US\$ XX,000 en régimen de “suma alzada”. El monto incluye US\$ XX,000 por concepto de honorarios profesionales (15 jornadas de U\$\$ XXXX), y US\$ XX,000 por concepto de los gastos necesarios para llevar a cabo la consultoría (15 días en Asunción, y pasaje).

La forma de pago será la siguiente:

Sobre honorarios:

- 30% al inicio de la consultoría y presentación del programa detallado de la actividades
- 70% a la aprobación del informe final abarcando la totalidad de los productos detallados.

VII. COORDINACIÓN Y SUPERVISION

La coordinación de la consultoría será llevada a cabo por un equipo del BCP formado por funcionarios de las SB y SS que funcionará como contraparte técnica.

El control de calidad de las tareas a desarrollar será evaluado por la OEA/CICAD, la división IFD/CMF y la Representación del BID en Paraguay.

PROCUREMENT PLAN FOR NON-REIMBURSABLE TECHNICAL COOPERATIONS										
Country: Regional				Executing agency: IDB				Public or private sector: (indicate which applies)		
Project number: RG-T2224				Title of Project: "Strengthening the Integrity of Financial Systems: Improving the Capacity to Prevent Money Laundering and Terrorist Financing"						
Period covered by the plan:										
Threshold for ex post review of procurements:				Goods and services (in US\$):			Consulting services(in US\$):			
Item No.	Ref. AWP	Description (1)	Estimated contract cost (US\$)	Procurement Method (2)	Review of procurement (ex-ante or ex-post) (3)	Source of financing and percentage		Estimated date of the procurement notice or start of the contract	Technical review by the PTL (4)	Comments
						IDB/MIF %	Local/other %			
1		Component 1: Assessment and National Strategies	350,000	QCII	N/A	100	0	March 2013-March 2014		
		<i>Consulting services (individual)</i>								
		Consulting service 1. <i>Design and Approval of a National Coordination and Cooperation Plan</i>	150,000	QCII	N/A	100	0	March 2013-September 2013		
		Consulting service 2. <i>Develop a Risk-Based Approach</i>	200,00	QCII	N/A	100	0	October 2013- March 2014		
2		Component 2: Capacity Building and Regulatory Reform	330,000	QCII	N/A			April 2014-March 2015		
		<i>Consulting services (individual)</i>								
		Consulting service 1. <i>Legal and Regulatory Reform</i>	130,000	QCII	N/A	100	0	April 2014-September 2014		
		Consulting service 2. <i>IT system to manage AML/CFT information</i>	200,000	QCII	N/A	100	0	October 2014-March 2015		
		<i>IT Software</i>	20,000	CB	N/A	100	0			
3		Component 3: Knowledge Creation and Dissemination	140,000	QCII	N/A	100	0	April 2015-March 2015		
		<i>Consulting services (individual)</i>	140,000	QCII	N/A	100	0	April 2015-March 2015		
4		External Mid-term and Final Evaluation	20,000		N/A	100	0	March 2015-March 2016		
5		Project Execution Unit								
		Operating expenses								
Total			0	Prepared by: Roberto De Michele			Date: 12/10/2012			
<p>(1) Grouping together of similar procurement is recommended, such as computer hardware, publications, travel, etc. If there are a number of similar individual contracts to be executed at different times, they can be grouped together under a single heading, with an explanation in the comments column indicating the average individual amount and the period during which the contract would be executed. For example: an export promotion project that includes travel to participate in fairs would have an item called "airfare for fairs", an estimated total value of US\$5,000, and an explanation in the Comments column: "This is for approximately four different airfares to participate in fairs in the region in years X and X1".</p>										
<p>(2) Goods and works: CB: Competitive bidding; PC: Price comparison; DC: Direct contracting.</p>										
<p>(2) Consulting firms: CQS: Selection Based on the Consultants' Qualifications; QCBS: Quality and cost-based selection; LCS: Least Cost Selection; FBS: Selection under a Fixed Budget; SSS: Single Source Selection; QBS: Quality Based selection.</p>										
<p>(2) Individual consultants: IICQ: International Individual Consultant Selection Based on Qualifications; SSS: Single Source Selection.</p>										
<p>(3) Ex ante/ex post review: In general, depending on the institutional capacity and level of risk associated with the procurement, ex post review is the standard modality. Ex ante review can be specified for critical or complex process.</p>										
<p>(4) Technical review: The PTL will use this column to define those procurement he/she considers "critical" or "complex" that require ex ante review of the terms of reference, technical specifications, reports, outputs, or other items.</p>										

Conceptual Issues

- 1 Although there is no single, universally accepted definition of money laundering, it is generally identified as the process by which a party seeks to legitimize resources originating in illicit activities, while concealing their origin. A more precise definition refers to it as "the process by which criminals attempt to conceal the source and ownership of the proceeds of their illicit activities. When carried out successfully it enables the criminal to maintain control and access these funds when and where he chooses, and may ultimately provide a legitimate cover for the origin of the income" (Pieth, Aioifi, 2003:6). Unger further defines money laundering as "an autonomous criminal economic activity whose essential economic function lies in the transformation of liquidity of illicit origin, or potential purchasing power, into actual purchasing power usable for consumption, saving, investment or reinvestment." (2007:105)
- 2 Money laundering and terrorist financing are complex phenomena that involve a local and an international dimension. Even though these phenomena particularly affect the financial system, they have connections to and implications for the tax system, the judicial system, and crime prevention in general. In terms of sectors and activities of the economy, money laundering may also involve non-financial activities, such as the housing market, exports and imports, transactions in precious metals, gaming, art dealership and professional activities that directly or indirectly facilitate money laundering practices.
- 3 An extensive literature examines the negative effects of money laundering. Scholars have identified harmful effects on private sector development –because investment decisions are not made in accordance with commercial considerations – and in banking – because money laundering permits the entry and exit of large sums of money that may affect the liquidity and solvency of institutions. These capital flows, not linked to the performance of macro-economic variables, can destabilize the financial systems of relatively small economies and even potentially affect their payment systems. Arnone and Borlini (2011) have argued that money laundering affects both the financial and non-financial sector:

First, launderers frequently use front companies, which co-mingle the proceeds of illicit activity with legitimate funds, to conceal their ill-gotten revenues. As these front companies benefit from access to substantial illegal funds, they might be able to cross-subsidize their legitimate productions below market rates, hence obtaining advantages over competitors and distorting the competitive process. (p.231)
- 4 Moreover, as suggested by Albrecht (2001), the problem of illegal gains shifts the focus of attention to the "risk that may occur to the legal economy through money obtained illegally. For this reason, we require measures to protect the legitimate economy from the investment of illegal money that distorts the competition."

- 5 Although there are many forms of money laundering, virtually all of them can be interpreted as a transfer of funds. As noted by Takáts (2007), the transfer itself is not the problem; rather, these transfers are socially harmful because they relate to and facilitate crimes. The most common offense associated with money laundering is drug trafficking activity at the retail stage.¹ This activity generates a large amount of money in small denominations, which in turn must be reintroduced into the financial system without being detected in order to start the laundering process.
- 6 In addition to harming the financial sector of the country where assets are laundered, the negative effects of money laundering extend far beyond national borders (Masciandaro, Takáts, and Unger 2007; and Chong and Lopez-de-Silanes, 2007). In particular, jurisdictions with less developed financial systems or laxer policies for monitoring capital flows may generate negative consequences not only for their local financial system and economy, but may also have consequences beyond its borders.
- 7 A weak AML/CFT environment also can have negative effects on the real economy. . Rawlings and Unger (2005) argue that countries that international financial and offshore centers that are relatively small and highly dependent on financial flows, money laundering and/or terrorist financing may suffer significant distortions in their own economy. Experience shows that jurisdictions that have relaxed their regulatory systems – thereby attracting illicit money² – have faced a serious reputational problem, and in some cases increased criminality.
- 8 In general, evidence also indicates that countries with higher risk of money laundering are exposed, not only to distortions in financial flows generated by the direct effect of these operations in their economies, but also to the indirect effects of illicit actions undertaken at the international level. Additionally, they are exposed to greater problems of corruption, alteration of labor markets, illegal political contributions, distorted tax systems³, increased crime, and, in general, to a range of associated social and political phenomena that go beyond those strictly related to financial activities.⁴
- 9 Chong and Lopes-de-Silanes (2007) argue that that money laundering has four main implications. “The first is economic distortion. On average, money launderers do not care about profit generation from their investments. They are only interested in protecting their proceeds and disguising their illicit origin. Hence, money launderers may place funds in inefficient activities, and high opportunity costs may impair economic growth. Laundered funds may harm private sector development because the investment decisions do not follow common commercial considerations, but just mingle

¹ For details on the retail level of drug dealing, see: Levitt and Dubner (2005)

² Rawlings and Unger (2005) suggest that attraction of illicit money be deliberate or unintentional.

³ See, for example: Owens and Saneli (2007)

⁴ See, for example: Stewart (2011)

the proceeds of illicit activity with legitimate funds. Money launderers usually offer products at prices below manufacturing cost, making it difficult for legitimate activities to compete, crowding out the private sector by criminal organizations, and resulting in negative macroeconomic effects in the long term. In addition, monetary instability can cause irremediable misallocation of resources by distorting asset and commodity prices. Furthermore, money laundering can cause inexplicable changes in money demand and greater volatility in international capital flows, interest rates, and exchange rates due to unanticipated cross-border asset transfers. In short, money laundering may result in instability, loss of control, and economic distortion, making it difficult for the authorities to implement economic policy (USAID 2003).

- 10 Second, money laundering has important implications for financial integrity and reputation risk. Liquidity problems and runs on banks may occur when large sums of laundered money arrive at a financial institution or suddenly disappear. Market factors do not drive these movements. In fact, money laundering activities may cause bank failures and financial crises. Money laundering may also tarnish the reputation of financial institutions. Once a bank's reputation is tarnished, the effect may go beyond the sector, affecting professionals, such as accountants and lawyers. This negative reputation may diminish licit opportunities and attract criminal activities, resulting in negative effects for economic development of the affected country in the global economy (Bartlett 2002; Bair 2003).
- 11 Third, money laundering affects government resources. Although money laundering and tax evasion are closely related, the processes differ. Tax evasion implies hiding the existence of legal earnings; money laundering does exactly the opposite. In fact, money launderers tend to over report the earnings of their licit businesses in order to mix both legal and illegal profits, although doing so brings a higher tax burden. Money laundering makes tax collection more difficult for the government and diminishes revenue because related transactions frequently take place in the underground economy, which ultimately harms honest taxpayers. It also may divert public funds to the detriment of expenditure in other significant areas (United Nations 1998; James 2002).
- 12 Fourth, money laundering has grave socioeconomic repercussions. If left unabated, money laundering allows criminal activities to flourish, which leads to greater social ills and increases the implicit and explicit costs of enforcement. There is a clear-cut link between the scale of money laundering and the level of corruption at the domestic level (Castle 1999). Given the evidence of increasing dirty money flows to markets with poorer financial systems, which are the most vulnerable to organized crime, the potential negative socioeconomic effects of money laundering are multiplied in emerging markets (Dowers and Palmreuther 2003; Drayton 2002)."

Indicative Matrix of Country Demand and Estimated Associated Costs RG-T2224

	RG-T2224			Key partners (external and internal)
Country	Assessments and National Strategies	Capacity Building and Legal/Regulatory Reform	Knowledge Creation and Dissemination	
Peru	Assessment to identify the gaps in the key public policies and strategies designed to detect, prevent and sanction ML	Analytical products to identify and propose required amendments to laws, statutes and regulations in compliance with the FATF Standards		IMF (Ext) CTI, FMM, ICS (Int)
Costs*	135,000	135,000		
Paraguay	Assessment of existing threats and vulnerabilities of the institutional and regulatory framework to prevent ML			IMF (Ext) CTI, FMM, ICS (Int)
Costs*	135,000	135,000		
Chile	Assessment of existing threats and vulnerabilities of the institutional and regulatory framework to prevent ML	targeted legislative assistance to undertake legal and regulatory reforms Systems and processes to improve the capacity to collect, organize and disseminate information.		IMF (Ext) CTI, FMM, ICS (Int)
Costs*	130,000	130,000	150,000	
Regional			Workshops to exchange best practices among member	IMF (Ext) CTI, FMM, ICS (Int)

	RG-T2224			Key partners (external and internal)
Country	Assessments and National Strategies	Capacity Building and Legal/Regulatory Reform	Knowledge Creation and Dissemination	
			<p>countries</p> <p>Papers and technical notes summarizing the results of the Bank's assistance on AML/CFT,</p> <p>Mock-trial learning module for judges and prosecutors, to enhance their capacity to manage cases related to ML</p>	
Sub-total	USD 400,000	USD 400,000	USD 150,000	
Contingencies & External Evaluation			USD 50,000	
TOTAL				USD 1,000,000