

## TC ABSTRACT

### I. Basic Project Data

▪ Country/Region:	REGIONAL/IDB
▪ TC Name:	Strengthening the Integrity of Financial Systems: Improving the Capacity to Prevent Money Laundering and Terrorist Financing IV
▪ TC Number:	RG-T3863
▪ Team Leader/Members:	De Michele, Roberto (IFD/ICS) Team Leader; DE Simone, Francesco (IFD/ICS) Alternate Team Leader; Alvarez Bollea, Maria Cecilia (IFD/ICS); Centeno Lappas, Monica Clara Angelica (LEG/SGO); Gamba, Jacopo (IFD/ICS); Aguilar Blandon, Maria Alejandra (IFD/ICS); Mahfouz, Giovanna L. (IFD/ICS).
▪ Taxonomy:	Client Support
▪ Number and name of operation supported by the TC:	N/A
▪ Date of TC Abstract:	23 Feb 2021
▪ Beneficiary:	Latin America and Caribbean borrowing member countries
▪ Executing Agency:	Inter-American Development Bank
▪ IDB funding requested:	US\$600,000.00
▪ Local counterpart funding:	US\$0.00
▪ Disbursement period:	36 months
▪ Types of consultants:	Firms; Individuals
▪ Prepared by Unit:	IFD/ICS - Innovation in Citizen Services Division
▪ Unit of Disbursement Responsibility:	IFD/ICS - Innovation in Citizen Services Division
▪ TC included in Country Strategy (y/n):	No
▪ TC included in CPD (y/n):	No
▪ Alignment to the Update to the Institutional Strategy 2010-2020:	Institutional capacity and rule of law

### II. Objective and Justification

- 2.1 To support IDB member countries in their efforts to prevent money laundering and terrorism financing, by complying with the Financial Action Task Force (FATF) Standards. The TC will combine a demand-driven approach, with a careful assessment of countries' Anti-Money Laundering and Terrorism Financing (AML/CFT) needs. In this sense, requests for support from specific countries will be considered along with the results of the Mutual Evaluation Reports (MERs) provided by the FATF, focusing on areas where there is a strategic need to improve the AML/CFT frameworks. IDB borrowing member countries require support and technical assistance from the Bank for the process of Mutual Evaluation or to implement the recommendations included in the FATF Mutual Evaluation Final Report. To date, three countries required support from the Bank in this area: Argentina, Uruguay and the Dominican Republic.
- 2.2 Money Laundering – which is estimated to amount between two and five per cent of global GDP - poses an enormous threat to nations as it fuels corruption and organized crime, facilitates terrorism, damages the integrity of financial systems and governmental institutions and harms the social and economic development of countries. Combating money laundering is therefore critical and has become a major concern in the international community. The Basel Committee on Banking Supervision promotes the implementation of sound Anti-Money Laundering and Terrorist Financing (AML/CFT) policies and procedures as critical to protect the safety and soundness of banks and the integrity of the international financial system. FATF Assessment reports conducted in

the past years indicate that several IDB borrower members still have weaknesses to implement and enforce Anti-Money Laundering and Terrorist Financing (AML/CFT) standards. The deficiencies detected in the AML/CFT systems has increased the assistance requests from countries to review and update their AML/CFT frameworks. The FATF conducts peer reviews of each member on an ongoing basis to assess levels of implementation of the FATF Recommendations.

### III. Description of Activities and Outputs

- 3.1 **Component I: National Risk Assessments (NRA) and National Strategies (NS).** This component is based on a two separate, but closely linked areas, aligned with FATF Recommendations 1 and 2. The first area focuses on conducting NRA to identify, evaluate, and understand the ML/FT risks for the country and take action based on such analysis. The second area supports translating the findings of the NRA into national AML/CFT policies, by supporting countries in designing effective policies and mechanisms to coordinate the AML actions of different agencies.
- 3.2 **Component II: Capacity Building and Regulatory Reform.** The main purpose is to strengthen the legal and regulatory framework in compliance with the FATF Recommendations. It will provide assistance with the reform of laws, statutes and regulations.
- 3.3 **Component III: IT capacity strengthening.** Focuses exclusively on the evaluation and recommendation of 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 ML/FT.
- 3.4 **Component IV: Knowledge and Dissemination.** This component is related to the production and dissemination of knowledge as an instrument to pinpoint the issue of money laundering into public policy discussions both at regional and national level. Includes: 1) Workshops to exchange best practices among member countries; and 2) Papers summarizing results of the Bank's assistance on AML/CFT.

### IV. Budget

Indicative Budget

Activity/Component	Total Funding (IDB)
National Risk Assessments (NRA) and National Strategies (NS).	US\$200,000.00
Capacity Building and Regulatory Reform.	US\$200,000.00
IT capacity strengthening.	US\$100,000.00
Knowledge and Dissemination.	US\$100,000.00
<b>Total</b>	<b>US\$600,000.00</b>

### V. Executing Agency and Execution Structure

- 5.1 This Regional TC will be executed by the Bank (HQ) through the Innovation in Citizens Services Division (IFD/ICS). The project team is led by IFD/ICS who will supervise the TC components.
- 5.2 Specifically, The Transparency and Integrity Cluster in ICS will be responsible for the execution of this TC since it has: (i) a proven track record in providing technical assistance in these areas, supported by extensive technical and operational expertise in the execution of projects of this kind in the region; and (ii) experience in selecting international experts in this field to successfully implement the envisaged activities. Additionally, the requesting entities do not have the necessary technical, operational or institutional capacity to duly and timely execute the activities provided in the respective project. Also, considering the delicate role of providing technical assistance to

institutions that are expected to meet international standards set elsewhere (i.e FATF and OECD), the role of the Bank as executing agency can grant the needed impartiality and independency in the AML/CFT process. This TC will be executed in accordance with the Bank's current procurement policies and procedures (GN-2765-1 applicable to Bank-executed operational work).

## **VI. Project Risks and Issues**

- 6.1 The team has identified a potential lack of sustainability of the results as the main risk stemming from the implementation of this TC. In particular, the risk that legal and regulatory reforms designed with the support of the program may not be implemented, or recommendations on other AML/CFT areas are not being followed and applied as expected. To mitigate this risk, the project team will ensure that interventions are targeted to countries that have manifested with a clear statement of project goals and understanding of the enabling or constraining environment in which projects take place. All technical support at country-level will require a letter of request or a non-objection. Additionally, the Project Team will maintain VPC, the regional managers, country coordinators and country economists abreast of developments, in order to ensure that the project is aligned with other Bank and country efforts in related areas.

## **VII. Environmental and Social Classification**

- 7.1 The ESG classification for this operation is "undefined".