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## International Monetary Fund (IMF)

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**Year of establishment:** 1944

**CTITIF Working Group Membership:**

- Tackling the Financing of Terrorism (lead)

The International Monetary Fund (IMF) is an intergovernmental organization consisting of 187 countries that focuses on promoting global monetary cooperation. Through its activities, the IMF also aims to facilitate international trade, secure financial stability, increase employment, reduce poverty, and promote sustainable economic growth. Like the World Bank, the IMF was created at Bretton Woods following the Great Depression, in an effort to avoid a repeat of the financial calamity that had characterized the preceding decade. Its founders envisioned the IMF as an institution that could manage national trade deficits to avoid devaluation, monitor participating states' financial systems, and provide loans to stabilize exchange rates.

In response to increased international concern over criminal and terrorist groups using legitimate financial institutions to move and store assets, the IMF has broadened its work to include countering the financing of terrorism (CFT) and anti-money-laundering (AML) operations. The IMF defines the financing of terrorism as “the financial support, in any form, of terrorism or those who encourage, plan or engage in it.”<sup>104</sup> According to the IMF, the potential negative impact of terrorist financing and money laundering on member states' financial systems gives the organization a particular interest in addressing these issues. These illegal activities, they say, can undermine the integrity and stability of financial institutions and systems, discourage foreign investment, and distort international capital flows.<sup>105</sup>

The relatively small amounts of money involved in planning and carrying out a terrorist attack (the 2005 London bombings, for example, only cost the planners \$15,000<sup>106</sup>) make the detection of terrorist financing a complex task, especially in light of the decentralization of funds, off-shore tax havens, and a number of countries with unregulated financial systems and limited bank supervision. The 9/11 Commission Report following the September 11th terrorist attacks revealed that \$300,000 of funds put towards the attacks had passed through the US banking system, illustrating the difficulty of combating terrorist financing in even the most advanced banking systems. Nonetheless, the IMF has expanded its efforts in this area using its comparative advantage as an international institution with near universal membership.

Prior to 2001, the IMF's counter-terrorism work focused predominantly on anti-money laundering operations. In 2000, the fund was developing a module for the *Anti-Money Laundering Report on Standards and Codes* as well as expanding its work on countering money laundering. Following the 9/11 attacks and the growing international focus on transnational terrorist groups, however, the IMF added the issue of terrorist financing to its efforts and established a specialized group within its legal department, called the Financial Integrity Group (FIG), composed of thirty professionals, to provide assistance to states on AML and CFT. Additionally, as early as November 17, 2001 the International Monetary and Financial Committee of the Board of Governors of the IMF adopted a communiqué that, inter alia, called on member states to ratify and implement the relevant counterterrorism instruments, including the *International Convention for the Suppression of the Financing of Terrorism* (1999).<sup>107</sup>

In 2004, the IMF Executive Board agreed to make AML/CFT assessments and technical assistance a regular part of the IMF's work and to cover the full scope of the Financial Action Task Force (FATF) recommendations.<sup>108</sup> The IMF's contributions in this area are undertaken in collaboration with the UN, FATF, and the FATF-style regional bodies (FSRBs) by conducting AML/CFT assessments, providing technical assistance, including through the multi-donor Topical Trust Fund, and by assisting in policy development and

research. All of the Fund's technical assistance is "provided on a voluntary, cooperative, and uniform basis. It is confidential and based on international standards [the FATF's 40+9 recommendations on money laundering and terrorist financing]."<sup>109</sup> In addition to providing technical assistance and assessing progress, the IMF provides a forum for sharing information, developing common approaches to issues, and promoting desirable policies, standards, and lessons learned in AML and CFT among its 187 members.

As the IMF has itself pointed out, there are difficulties and potential dangers to applying international standards to all domestic situations, without due regard for the circumstances and legal systems within respective countries. In countries where an unregulated banking system known as hawala exists alongside a conventional banking system, the IMF and the World Bank has been making efforts to register dealers and keep records in order to minimize abuse of these systems by terrorists and other actors.<sup>110</sup> In systems that lack a supervisory capacity to monitor these regulations or in countries experiencing conflict, enforcing these regulations can be difficult. Moreover, the necessity of these informal systems must be taken into account, since they are often providing financial services to the poor for whom the formal banking system can be prohibitively expensive. Therefore, the IMF has tried to work with national governments to be flexible in dealing with compliance of the unregulated banking systems to avoid depleting societies of a vital component of survival.

Along with the World Bank and the UN Office on Drugs and Crime, the IMF is leading the Counter-Terrorism Implementation Task Force Working Group on Tackling the Financing of Terrorism. This working group finalized and published a report entitled *Tackling the Financing of Terrorism* in October 2009, which contains a total of thirty-six findings and forty-five recommendations that are intended to help UN member states increase the effectiveness of efforts to combat the financing of terrorism. These findings and recommendations cover five broad areas:

1. the criminalization of terrorist financing,
2. the enhancement of domestic and international cooperation,
3. value transfer systems,

4. nonprofit organizations, and
5. the freezing of assets.

Following the finalization of the report by the working group, the fund staff prepared an action plan containing proposals for moving forward in the implementation of the report's recommendations, which was approved by the working group.<sup>111</sup>