

Williams, D. </view/creators_id/david=2Ewilliams=2E1.html> (2008). Governance, Security and "Development": The Case of Money Laundering (Report No. CUTP/001). London, UK: Department of International Politics, City University London.



**CITY UNIVERSITY
LONDON**

[City Research Online](#)

Original citation: Williams, D. </view/creators_id/david=2Ewilliams=2E1.html> (2008). Governance, Security and "Development": The Case of Money Laundering (Report No. CUTP/001). London, UK: Department of International Politics, City University London.

Permanent City Research Online URL: <http://openaccess.city.ac.uk/1285/>

Copyright & reuse

City University London has developed City Research Online so that its users may access the research outputs of City University London's staff. Copyright © and Moral Rights for this paper are retained by the individual author(s) and/ or other copyright holders. Users may download and/ or print one copy of any article(s) in City Research Online to facilitate their private study or for non-commercial research. Users may not engage in further distribution of the material or use it for any profit-making activities or any commercial gain. All material in City Research Online is checked for eligibility for copyright before being made available in the live archive. URLs from City Research Online may be freely distributed and linked to from other web pages.

Versions of research

The version in City Research Online may differ from the final published version. Users are advised to check the Permanent City Research Online URL above for the status of the paper.

Enquiries

If you have any enquiries about any aspect of City Research Online, or if you wish to make contact with the author(s) of this paper, please email the team at publications@city.ac.uk.

GOVERNANCE, SECURITY,
AND 'DEVELOPMENT':
THE CASE OF MONEY LAUNDERING

David Williams

Working Paper CUTP/001

© David Williams, February 2008

This is a work in progress. Feedback welcome.

Contact: david.williams@city.ac.uk

Series Editor: Tom Davies (tom.davies@city.ac.uk)

Introduction

This paper is an attempt to explain why development agencies have become increasingly concerned with establishing anti-money laundering (AML) regimes in developing countries. The agencies themselves argue that there is a significant developmental rationale for this concern. In fact, however, it is very hard to find any substantial evidence for the impact of money laundering on economic growth and development. This paper argues instead that the growing concern with money laundering on the part of development agencies is to be explained in terms of the ways in which western states are using development agencies to draw developing countries into an increasingly global regime of financial governance. This is driven by the 'securitization' of governance 'failures' in developing countries in the post-September 11th context. In other words, the concern with money laundering on the part of development agencies is not really about 'development' at all; it is about security and governance. If this is right, then the example of money laundering raises an important question about the contemporary project of 'international development'; especially as so much of this project is about the creation and recreation of patterns of domestic governance (in finance, trade, legal systems and so on), and the integration of developing countries into international regimes of governance (through harmonization and standardization for example). The question it raises is whether the pursuit of 'governance' has now become synonymous with 'development'.

This paper begins by examining the 'securitization of governance'. It then briefly sketches out the development of the international anti-money laundering regime, up to 2001. While in some respects this regime had developed quite quickly from the late 1980s, its major weaknesses were a lack of any substantial enforcement powers and a relatively narrow geographical focus. For the major western states, and especially the United States, these weaknesses became seen as particularly acute in the context of the events of September 11th 2001. The response of these states was to use the World Bank and the IMF as instruments for the incorporation of developing countries into the global anti-money laundering regime. Given their near universal membership, their financial resources, and their extensive and on-going relationships with developing country governments, they are in an obviously privileged position to

pressure developing countries to create domestic anti-money laundering regimes. The concern with money laundering was subsequently adopted by almost all multi-lateral and bi-lateral development agencies. The paper then reviews the (very limited) evidence for the idea that anti-money laundering activities are grounded in a developmental rationale, and argues instead that the concern with anti-money laundering is best seen as part of the process of the 'securitization of governance'.

The 'Securitization of Governance'

Within the discipline of International Relations, the term 'securitization' is associated with the work of Barry Buzan, Ole Waever and more generally what has become known as the 'Copenhagen School'.¹ In its simplest form a concern with 'securitization' involves an investigation into the ways in which issues, processes and events become seen as matters of 'security', and thus cast as existential threats that require special measures to address. By casting the study of 'security' in these terms the Copenhagen School consciously departs from the 'traditional' approach to security which has been to take threats as objectively there, and in general terms to see these threats as being essentially military threats to the territory, sovereignty or 'interests' of the state and its populace. The kinds of theoretical arguments used to advance this agenda for the study of security have been the subject of controversy.² In particular the central concept of 'societal security', which rests on a notion of societal identity (which can be 'threatened') has been the subject of a variety of critiques.³

¹ The key works here are Barry Buzan, Ole Waever and Japp de Wilde, *Security: A New Framework for Analysis* (Boulder, CO, Lynne Rienner, 1998), Ole Waever, 'Securitization and Desecuritization', Ronnie Lipschutz (ed.), *On Security* (New York, Columbia University Press, 1995), and Ole Waever, Barry Buzan, Morten Kelstrup and Pierre Lemaitre, *Identity, Migration and the New Security Agenda in Europe* (London, Palgrave Macmillan, 1993).

² Most significantly see Bill McSweeney, 'Identity and Security: Buzan and the Copenhagen School', *Review of International Studies* 22(1), 1996, 81-93, Barry Buzan and Ole Waever, 'Slippery? Contradictory? Sociologically Untenable? The Copenhagen School Replies', *Review of International Studies* 23(2) 1997, 241-250, and Bill McSweeney, 'Durkheim and the Copenhagen School: A Response to Buzan and Waever', *Review of International Studies* 24 (1), 1998, 137-140. For a commentary on these debates see Michael Williams, 'Modernity, Identity and Security: A Comment on the "Copenhagen Controversy"', *Review of International Studies*, 24(3), 1998, 435-439. For a more recent assessment of the theoretical underpinnings of 'securitization' see Holger Stritzel, 'Towards a Theory Securitization: Copenhagen and Beyond', *European Journal of International Relations*, 13(3), 2007, 357-383.

³ See McSweeney, 'Identity and Security' and Lene Hanson, 'The Little Mermaid's Silent Security Dilemma and the Absence of Gender in the Copenhagen School', *Millennium* 29(2) 2000, 285-306.

Despite the energy that has gone into debating the idea of securitization, it remains uncertain if the full theoretical apparatus of the Copenhagen School is really essential to the project of pursuing empirical research into instances where events, processes and issues have become seen as security threats ('securitized'). This article is not intended as contribution to the debates over the adequacy or otherwise of the Copenhagen School's analysis of security. Nonetheless it does contend that, in recent years, something like a process of securitization has occurred with reference to the problems of 'governance' in the developing world, and more specifically, that governance 'failures' in the financial sector need to be overcome if money laundering is to be successfully controlled. In addition, as this has become 'securitized', so a new urgency has developed in the efforts by the G-7 states to tackle the problem of money laundering that manifests itself particularly in the recruitment of development agencies to this task. This is a narrower manifestation of what a number of commentators have identified as the 'securitization of development'.⁴

In recent years the problems of 'weak' states have become seen as some of the most pressing issues facing western governments. The 2002 White House National Security Strategy says that 'the United States today is threatened less by conquering states than we are by weak and failing ones'.⁵ Condoleeza Rice has argued that states which are incapable of exercising 'responsible sovereignty' have a significant spillover effect in the form of terrorism, weapons proliferation and other dangers.⁶ In an especially revealing phrase, the US Pentagon is seeking to develop a strategy to deal with what it calls the world's 'ungoverned areas'.⁷ As USAID has put it:

When development and governance fail in a country, the consequences engulf entire regions and leap across the world. Terrorism, political violence, civil wars, organized crime, drug

⁴ See for example, Mark Duffield, *Global Governance and the New Wars: The Merging of Development and Security* (London, Zed, 2001).

⁵ The White House, *National Security Strategy of the United States of America* (Washington, DC, 2002).

⁶ 'A Conversation with Condoleeza Rice', *The American Interest*, (Autumn 2005) 47-50.

⁷ Stewart Patrick, 'Weak States and Global Threats Assessing Evidence of "Spillovers"', *Centre for Global Development Working Paper*, 73, Washington, DC, Centre for Global Development, 2006, p. 4. The parallel here with Mark Duffield's phrase 'governing the borderlands' is obvious. See Mark Duffield, 'Governing the Borderland: Decoding the Power of Aid', *Disasters* 25(4), 2001, 308-320.

trafficking, infectious diseases, environmental crises, refugee flows and mass migrations cascade across the borders of weak states more destructively than ever before.⁸

The United Nations Secretary General's High Level Panel argued that 'successful international actions to battle poverty, fight infectious diseases, stop transnational crime, rebuild after civil war, reduce terrorism, and halt the spread of dangerous materials all require *capable*, responsible states as partners'.⁹ Kofi Annan himself has said that 'one of the great challenges of the new millennium is to ensure that all states are *strong enough* to meet the many challenges they face'.¹⁰ This suggests that 'governance' failures in 'weak' states have become increasingly seen as the source of a series of 'threats' to the security and settled well-being of western states.¹¹

In terms of the governance of finance and banking, Williams Wechsler, former Special Adviser to the Secretary of the Treasury, has argued that 'weak banking systems and poor supervision' are a 'growing threat to American interests', not just in terms of their contribution to financial crises but also in terms of 'the problems that global financial abuses present to U.S. Law enforcement and national security'.¹² Wechsler argues that these problems include the international drugs trade, multinational crime, the financing of terrorism, corruption, threats to US strategic interests, and the undermining of effective sanctions regimes.¹³ The US Department of Treasury has said that 'following the terrorist attacks ... we also recognize that the fight against money laundering is integral to the war on terror'.¹⁴ The 2001 United States National Money Laundering Strategy said that '[l]aw enforcement cannot limit its fight against money laundering to domestic efforts':

⁸ USAID, *Foreign Aid in the National Interest: Promoting Freedom, Security and Opportunity* (USAID, Washington DC, 2003).

⁹ Secretary General's High Level Panel on Threats, Challenges and Change, *A More Secure World: Our Shared Responsibility* (New York, United Nations, 2004), emphasis added.

¹⁰ Kofi Annan, *In Larger Freedom: Towards Development, Security, and Human Rights for All* (New York, United Nations, 2005), emphasis added.

¹¹ Whether they actually are threats is another matter. See Patrick, 'Weak States and Global Threats'.

¹² Williams F Wechsler, 'Follow the Money', *Foreign Affairs* July/August 2001, pp. 44, p. 46.

¹³ Wechsler, 'Follow the Money', pp. 44-48

¹⁴ US Department of Treasury, *2002 National Money Laundering Strategy* (Washington, DC, Department of Treasury, 2002), p. 3.

Money launderers also take advantage of the laws and protection of foreign states to escape investigation and prosecution. Various nation-states have critical deficiencies in their anti-money laundering regimes: they have not enacted laws that prohibit money laundering; they do not aggressively enforce existing anti-money laundering legislation; or they fail to cooperate internationally to investigate and prosecute money launderers at large.¹⁵

The 2002 United States Money Laundering Strategy said that ‘money laundering is a problem of global dimensions that requires concerted and cooperative action on the part of a broad range of institutions’.¹⁶ United States Attorney General John Ashcroft said in August 2001, that ‘money laundering constitutes a serious threat to our communities, to the integrity of our financial institutions and to our national security’. Fighting money laundering, he said, is ‘more than a bloodless exercise in accounting’: ‘when we fight money laundering we fight organized crime. When we fight money laundering we keep drugs out of our playgrounds ... We keep weapons out of the hands of terrorists’.¹⁷ As Hilary Benn put it, ‘it is in everybody’s interests to help developing countries to put in place strong anti-money laundering mechanisms and monitoring’.¹⁸ There seems to be a clear view, at least on the part of the US, that poor supervision and regulation of financial and banking systems in developing states poses a threat to US security.

The International Anti-Money Laundering Regime¹⁹

The international anti-money laundering regime has been developing since the late 1980s.²⁰ At the heart of this regime is the Financial Action Task Force

¹⁵ The Office of Enforcement, US Department of Treasury, *The 2001 National Money Laundering Strategy*, Washington DC, US Department of Treasury, September 2001, p. 38.

¹⁶ US Department of Treasury, US Department of Justice, *2002 National Money Laundering Strategy* (Washington, DC, 2001), p. 46.

¹⁷ John Ashcroft, prepared remarks, Organized Crime Conference, Chicago, IL, August 7, 2001.

¹⁸ Hilary Benn, ‘Money Laundering as a Threat to International Development’, Speech to the ‘Stop Money Laundering’ Conference, London, February, 2002.

¹⁹ Here I follow a loose but nonetheless fairly conventional understanding of the term ‘regime’. I simply mean a connected set of rules, institutions and practices designed to ‘govern’ a particular issues area.

²⁰ Although the US first criminalized money laundering in 1986 as part of a campaign against drug trafficking.

(FATF).²¹ FATF was founded in 1989 by the G7 states with the purpose of examining money laundering techniques and trends and setting out measures that should be taken to combat money laundering. In 1990 FATF issued 'Forty Recommendations', and these recommendations form the basis for all domestic and regional anti-money laundering (AML) regimes. The recommendations cover three areas: first, the legal system (essentially the criminalization of money laundering); second measures to be taken by financial institutions and other organizations (accountancy firms and banks for example) to prevent money laundering (essentially customer due diligence and reporting requirements); third, measures to be taken by governments and regulatory agencies (essentially the creation of effective domestic regulatory bodies and a commitment to international cooperation). The members of FATF generally complied with the forty recommendations, at least on paper, despite the fact that the recommendations were non-binding.²²

There are now also eight FAFT-style regional bodies, including a Caribbean Financial Action Task Force, established in 1992, an Asia/Pacific Group, established in 1997, a South American Financial Action Task Force, created in 2000, an East and South African Anti-Money laundering Group, established in 1999, a Eurasian Group, established in 2004, and a Middle-East and North African Financial Action Task Force, again established in 2004. There have also been three EU directives on countering money laundering, the last of which was issued in October 2005. These regional bodies have tended to adopt the FATF 40 recommendations and supplement with specific additional recommendations of special relevance to the region concerned. For example, the latest EU Directive states that 'Community action should continue to take particular account of the Recommendations of the Financial Action Task Force' and that the EU guidelines should be in line with these standards.²³ Alongside FATF and the regional FATF-style institutions, are two other institutions that

²¹ For more on FATF see Thomas Biersteker and Sue Eckert (eds.), *Countering the Financing of Global Terrorism* (London, Routledge, 2006). See also www.fatf-gafi.org.

²² Eric Helleiner, 'The Politics of Global Financial Regulation: Lessons from the Fight Against Money Laundering', John Eatwell and Lance Taylor (eds.), *International Capital Markets: Systems in Transition* (Oxford, Oxford University Press, 2002). Although, of course, this does not mean that money laundering has in fact been eradicated in those states.

²³ Directive 2005/60/EC of the European Parliament and of the Council of 26 October 2005 on the Prevention of the Use of the Financial System for the Purpose of Money Laundering and Terrorist Financing.

form part of the global anti-money laundering regime. The first is the Egmont Group.²⁴ This was established in 1995 and is a group of Financial Intelligence Units (FIUs) that cooperate together on money laundering. The second is the Wolfsberg Group which is a group of international banks who agreed in 2000 to cooperate on principles and procedures to combat money laundering and the financing of terrorism.²⁵

There are a number of features of this regime worth noting. The first is the stress laid on domestic governance as the key to reducing money laundering. That is, the regime does not attempt to control the flow of money across borders, but rather it seeks to improve the capacity of governments to investigate and prosecute money laundering within their own domestic financial system. In this way, of course, the regime seeks to reduce money laundering 'without impeding in any way the freedom of capital movements'.²⁶ Second, the regime has at its heart the international harmonization of domestic laws and practices; this is the significance of the FATF recommendations. Third, the regime described above only really covers a relatively small number of states and institutions. FATF only has 33 member countries. The Egmont Group only covers FIUs. The Wolfsberg Group only has twelve (albeit important) members.

Finally, and perhaps most significantly, FATF as originally established had no significant enforcement powers over jurisdictions that did not sign up to its standards.²⁷ The first serious attempt to expand the geographical scope of the anti-money laundering regime occurred in 2000. In the run-up to the G-7 conference in July of that year, FATF was asked by the G-7 to review those countries that 'resisted global efforts to combat money laundering'.²⁸ The expansion of the mandate of FATF resulted in the development of a set of criteria for identifying 'uncooperative nations'. As a result of this 29 states were originally identified as 'Non-Cooperative Countries and Territories' (NCCTs). At the July 2000 meeting the G-7 states threatened these NCCTs with various measures, including restricting financial transactions with these states, and

²⁴ For information see www.egmontgroup.org.

²⁵ For information see www.wolfsberg-principles.com.

²⁶ FATF, recommendation no. 22.

²⁷ Edwin Truman, 'Anti-Money Laundering as a Global Public Good', Global Public Goods Taskforce, Expert paper Series, *Financial Stability* (International Taskforce on Global Public Goods, Stockholm, 2006).

²⁸ Weschler, 'Follow the Money', p. 50

conditioning support from the IFIs in progress towards the FATF recommendations.²⁹ It is clear that the G-7 were becoming more concerned with money laundering before the events of September 11th 2001. Nonetheless, the international anti-money laundering regime had within it only a relatively under-developed set of instruments for getting countries outside of its membership to actually implement and enforce the FATF recommendations.

The events of September 11th provided a new urgency to the task of expanding the geographical scope of the anti-money laundering regime. First, a concern with countering the financing of terrorism (CFT) was immediately added to the existing AML regime. In October 2001 FAFT issued 'eight special recommendations' concerned with terrorist financing (with a ninth added in 2004). These include the ratification of 1999 UN Convention for the Suppression of the Financing of Terrorism, measures to freeze and confiscate terrorist assets, enhanced international cooperation, and domestic regulatory measures related to alternative remittance systems, wire transfers, the funding of non-profit organizations and cash couriers. In this way an immediate and significant link was made between money laundering and the financing of terrorist groups, and the concern with money laundering on the part of the United States shifted from the 'war on drugs' to the 'war on terror'.³⁰ Second, September 11th was the catalyst for an attempt by the developed states to expand and strengthen the global AML regime by using development agencies, initially the World Bank and IMF, as instruments to create domestic AML regimes in developing countries.³¹

Development Agencies and Anti-Money Laundering

The World Bank and the IMF had been only marginally concerned with money laundering before September 2001. In 1995 the World Bank produced a short paper on money laundering.³² In 1998 Michel Camdessus, the then Managing

²⁹ Weschler, 'Follow the Money', p. 51.

³⁰ See, Peter Shields, 'When the "Information Revolution" and the US Security State Collide: Money Laundering and the Proliferation of Surveillance', *New Media and Society*, 7(4) 2005, 483-512.

³¹ See William Holder, 'The International Monetary Fund's Involvement in Combating Money Laundering and the Financing of Terrorism', *Journal of Money Laundering Control* 6(4) 2003, 383-387

³² World Bank, 'Money Laundering and International Efforts to Fight it', Public Policy for the Private Sector note 48, May 1995.

Director of the IMF, argued that money laundering threatened the smooth functioning of financial markets. He also argued that in an era of 'globalization' 'all countries must participate – and participate enthusiastically' in prevention strategies. He also argued that 'the global nature of the IMF's surveillance and technical assistance activities' provided an opportunity to pressure governments to adopt effective anti-money laundering legislation.³³ In September 2000, as a direct outcome of the G-7 meeting in July, the International Monetary and Financial Committee asked the Bank and Fund to prepare a joint paper on their respective roles in combating money laundering and financial crime.³⁴ This paper was discussed by the Development Committee in April 2001.³⁵ At that meeting it was agreed that 'money laundering is a problem of global concern' and that national and international efforts which 'will require a cooperative approach involving many different institutions given the cross-cutting agenda – encompassing financial sector supervision and regulation, good governance, judicial and legal reform and effective law enforcement'.³⁶

This represented the first concerted effort by the major shareholders of the Bank and the Fund, especially the US, to get these institutions to take a more significant role in countering money laundering. It is equally significant that at this time (2000, early 2001) there was also substantial resistance on the part of many member states, especially the developing countries, to making AML activities a formal part of Fund and especially Bank operations.³⁷ The reasons for this resistance are reasonably clear: the developing countries did not want the Bank and Fund to generate additional 'conditionalities'. In addition, a number of states objected that in fact neither the Fund nor the Bank had any real expertise in this area. The opposition to making AML a part of Fund and Bank operations was successful, at least initially. However, after September 11th this opposition was overcome. 'Industrial countries and the G7 in particular,

³³ Michel Camdessus, 'Money Laundering: the Importance of International Countermeasures', address to the plenary meeting of the Financial Action Task Force, Paris, February 10, 1998.

³⁴ The International Monetary and Financial Committee is composed of governors of the IMF.

³⁵ 'Enhancing Contributions to Combating Money Laundering: Policy Paper', paper prepared by World Bank/IMF staff for the Development Committee Meeting, April 30, 2001. The Development Committee is a Joint Ministerial Committee of the Governors of the Fund and the Bank whose remit is to advise the Board of Governors on 'critical development issues'

³⁶ World Bank, 'Proposed Action Plan for Enhancing the Bank's Ability to Respond to Clients in Combating Money Laundering and the Financing of Terrorism', World Bank paper, 2001.

³⁷ Marco Arnone and Pier Carlo Padoan, 'Anti-Money Laundering by International Institutions: A Preliminary Assessment', *CIDEI Working Paper* no. 74, CIDEI Rome, February 2007, p. 8.

could now force the others to agree on a consensus for reasons that went beyond “simple” financial stability’.³⁸

At a November 2001 meeting of the Development Committee, ministers stressed the need for the Bank and Fund to do more to help countries identify and address money laundering and the financing of terrorism. The US has been quite open about its desire to use development agencies to tackle money laundering.: ‘The United States will coordinate with G-7 and FATF members to ensure that the IMF and World Bank incorporates the Forty Recommendations into their operational work and promote the Forty Recommendations as the international standard’; the Department of Treasury will ‘help foster and implement initiatives focused on money laundering and financial abuse ... by the Multilateral Development Banks’.³⁹ ‘Well conceived and targeted aid is a potential leveraging instrument that can help countries implement sound policies’.⁴⁰ In January 2002 the Bank’s Board accepted that that AML/CFT work was within the Bank’s mandate. In August 2002 the Bank Board added money laundering and terrorist financing to the list of 11 areas where standards and codes are useful to the Bank’s work, and agreed to adopt the FATF ‘40+8’ Recommendations. Later the same year the IMF and World Bank agreed to undertake a one-year pilot project for assessing compliance with FAFT standards. What this meant was that FATF was essentially contracting out its assessments of compliance with the 40+8 recommendations to the IMF and the World Bank.

When the World Bank started including assessment of AML/CFT regimes into its FSAPs it found that a ‘fairly high percentage’ of countries were failing in one way or another to provide adequate mechanisms for dealing with these problems. Among the shortcomings identified were:

- poor assistance provided to other countries investigations into terrorist financing;
- poor attention given to transactions with ‘higher risk countries’;

³⁸ Arnone and Padoan, ‘Anti-Money Laundering by International Institutions’, p. 9.

³⁹ *2001 National Money Laundering Strategy*, p. 46-7.

⁴⁰ E. Anthony Wayne, Assistant Secretary for Economic and Business Affairs, ‘Money Laundering and Terrorist Financing in the Middle East and South Asia’, Testimony before the Senate Committee on Banking, Housing and Urban Affairs, July 13, 2005.

- poor detection and analysis of unusually larger or otherwise suspicious transactions;
- failure to criminalize the financing of terrorism;
- inadequate AML supervision of banks and other financial institutions;
- inadequate measures to freeze and confiscate terrorist assets;
- inadequate 'internal policies, procedures, controls, audits and training programs'.⁴¹

The methodology use to make these assessments contains over 250 criteria and is extraordinarily detailed. For example, it includes criteria concerning the conduct of customer due diligence with respect to when it is to be conducted, how long it should take, what to do with existing customers, the conditions under which certain exemptions may be granted, and when financial institutions can rely on third party assessments.⁴²

In March 2004, the World Bank and the IMF agreed to make the pilot programme permanent and more wide-ranging, most particularly it agreed to integrate assessment of criminal law enforcement into its appraisal documents. Both the World Bank and the IMF are now integrating the results of FSAPs, into their Country Assistance Strategies. This means that progress towards the establishment of an effective domestic anti-money laundering regime is explicitly part of the World Bank's objectives in its borrower countries, and progress towards the achievement of this has become one of the numerous performance indicators used by the Bank to assess the progress of these countries.

The World Bank has also expanded its technical assistance provision in the areas of money laundering and countering the financing of terrorism.⁴³ Between 2002 and 2004 the World Bank and IMF delivered technical assistance to 63 individual countries, and undertook 32 regional technical assistance projects.⁴⁴ This technical assistance was directed at the establishment of AML/CFT laws and regulations that met international best

⁴¹ World Bank/IMF, *Financial Sector Assessment: A Handbook* (Washington, DC, World Bank/IMF, 2005), p. 213.

⁴² World Bank/IMF, *Financial Sector Assessment: A Handbook*, pp. 214-5.

⁴³ For more on this see, IMF/World Bank, *Reference Guide to Anti-Money Laundering (AML) and Combating and Financing of Terrorism (CFT)* (Washington, DC, World Bank/IMF, 2006).

⁴⁴ IMF/World Bank, *Reference Guide to AML and CFT*.

practices, capacity building for financial sector supervisory and regulatory authorities, the establishment of financial intelligence units, as well as public awareness and training programs in the public and private sectors.⁴⁵ The World Bank has been undertaking a number of research programmes that feed into and amplify this new concern with money laundering and terrorist financing. For example, it has been conducting research into the Hawala exchange system with the explicit aim of identifying the characteristics that make it vulnerable to financial abuse and to consider the appropriate regulatory and legal options.⁴⁶ The World Bank's interest in the Hawala money exchange system is matched by a growing concern on the part of the US government and INTERPOL.⁴⁷ It has also conducted research into how AML/CFT activities can be integrated into micro finance institutions.⁴⁸

Almost all other bi-lateral aid development agencies have followed the World Bank and IMF into AML/CFT work. Towards the end of 2006, the British Department for International Development (DfID) agreed to contribute £6 million over three years to the joint City of London and Metropolitan Police Force International Corruption Group. The money will be used to pay for police officers who will work in the Proceeds of Corruption Unit which tackles money laundering in the City of London.⁴⁹ More generally, DfID has committed itself to 'tackling corruption, bribery and money laundering'.⁵⁰ NORAD has funded a research project examining the extent of money laundering in Southern Africa

⁴⁵ See, IMF/World Bank, 'Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments: Joint Report on the Review of the Pilot Program', March 10, 2004. See also World Bank, *Effective Regimes to Combat Money Laundering and the Financing of Terrorism: Strengthening the Collaborative Process* (Washington, DC, World Bank, 2004).

⁴⁶ Samuel Munzle Maimbo, 'The Money Exchange Dealers of Kabul: A Study of the Hawala System in Afghanistan', World Bank, June 2003. See also Daniel Kaufman, 'Governance in the Financial Sector: The Broader Context of Money Laundering and Terrorist Financing', Draft Paper, December 2002.

⁴⁷ Lisa Carroll, 'Alternative Remittance Systems: Distinguishing Sub-Systems of Ethnic Money Laundering in Interpol Member Countries on the Asian Continent', Interpol, 30 July, 2004.

⁴⁸ See Raul Hernandez-Coss, Chinyere Egwuagu, Jennifer Isen and David Porteous, *AML/CFT Regulation: Implications for Financial Service Providers that Serve Low-Income People* (Washington DC, World Bank, 2005).

⁴⁹ DfID, 'Combating International Corruption UK Action Plan for 2006/7 – Interim Progress Report', London, DfID, 2006.

⁵⁰ DfID, *Eliminating World Poverty: Making Governance Work for the Poor* (London, DfID, 2006), p. 33.

which was undertaken by the Institute for Security Studies in South Africa.⁵¹ USAID has been extensively involved (as one would expect) in tackling money laundering. To give just one example it has been providing technical assistance to Indonesia's FIU, the Ministry of Finance, and the Indonesian Attorney General's Office to boost their capacity to tackle money laundering.⁵²

Similarly, most of the other multilateral development banks have also become concerned with combating money laundering and terrorist financing. Apart from the usual raft of training programmes and 'dialogues', the Inter-American Development Bank has funded projects to support the creation and development of a number of financial intelligence units in its member states.⁵³ The Asian Development Bank has been similarly concerned with money laundering.⁵⁴ The African Development Bank has been pursuing anti-money laundering activities through the new Economic Partnership for African Development (NEPAD). In particular it has pursued implementation of international standards and codes in the banking and financial sectors in Africa, including the adoption of the FATF recommendations.⁵⁵ So, for example, the extent to which an African country has implemented an anti-money laundering law, and the extent to which it has established a financial intelligence unit to investigate money laundering and other financial crimes are explicit criteria in the assessment of African countries through the NEPAD Peer Review Mechanism.

It is worth noting at this stage two important facets of this development. First, it provides significant additional evidence for the emergence of a more tightly integrated 'development community'. Dissenting voices among significant development institutions have almost vanished as there has been increasing policy convergence among bi-lateral and multilateral development agencies,

⁵¹ Charles Goredema, 'Money Laundering in East and Southern Africa: A Preliminary Overview of the Threat', Institute of Security Studies, Cape Town, August 2002.

⁵² USAID, 'Indonesia: Financial Crime Prevention Project, June 2004-June 2008', Washington, DC, USAID, 2004.

⁵³ Inter-American Development Bank, *IDB America*, March 16, 2007.

⁵⁴ See Asian Development Bank, 'Enhancing the Asian Development Bank's Role in Combating Money Laundering', ADB, March 2003.

⁵⁵ African Development Bank Group, 'Framework for the Implementation of Banking and Financial Standards in Africa', report prepared for the NEPAD Steering Committee, 27th June, 2002.

and many development NGOs.⁵⁶ This is a significant change from the 1980s when there was a great deal more disagreement among development agencies. There has also been a dramatic rise in cooperation between development agencies, and between development agencies and NGOs. This is illustrated clearly by the growing interest in establishing formal cooperation and policy harmonization frameworks, both at the institutional level and in terms of country operations.⁵⁷ It is also illustrated by the PRSP process within which almost all development agencies and very many NGOs have become willing participants.⁵⁸ Increasingly, recipient countries face donors as a single bloc who all have the same policies and who are increasingly cooperating among themselves.

Second, the example of money laundering also shows how development agencies have become part of a broader network of agencies pursuing the governance of money laundering. There are other states agencies involved (DoJ, DoS, FCO), NGOs (Transparency International), Interpol and other policing agencies. This provides further evidence for the ways in which the creation of regimes of governance takes place through networks of sometimes very diverse agencies; in this case state and non-state, domestic and international, developmental and law enforcement.⁵⁹ Some of this is hardly new. States have always used development agencies for goals other than 'development'. But it is nonetheless illustrative of drive to incorporate developing countries into regimes of global governance and illustrative of the ways in which development agencies have been recruited to do this.

Development or Governance?

The development agencies have argued that this anti-money laundering activity has a development rationale. The World Bank, for example, has said that 'money laundering has potentially devastating economic, political and social

⁵⁶ Exactly why this has been the case has not been adequately explored. For one case study see Janne Jokinen, 'Balancing between East and West: The Asian Development Bank's Policy on Good Governance', Morten Boas and Desmond McNeil (eds.), *Global Institutions and Development: Framing the World?* (London, Routledge, 2004)

⁵⁷ See, OECD, *Harmonising Donor Practices for Effective Aid Delivery* (Paris, OECD, 2003).

⁵⁸ David Craig and Doug Porter, 'Poverty Reduction Strategy papers: A New Convergence', *World Development* 31(1) 2003, 53-69.

⁵⁹ See, for example, Anne-Marie Slaughter, *A New World Order*, (Princeton, NJ, Princeton University Press, 2004)

consequences'.⁶⁰ The Asian Development Bank has said that 'money laundering poses a serious threat to sound economic development'.⁶¹

[I]t is clear that such activity damages the financial-sector institutions that are critical to economic growth, reduces productivity in the economy's real sector by diverting resources and encouraging crime and corruption, which slow economic growth and can distort the economy's external sector – international trade and capital flows – to the detriment of long-term development.⁶²

This argument yokes together a series of claims that hinge on the role that the financial sector plays in economic development. A similar argument has been made in an IMF paper, where it is claimed that money laundering can distort economic data and thus distort policymaking, that it can lead to an erosion of confidence in financial markets, and that it can depress economic growth rates.⁶³ The most comprehensive statement by the World Bank about the developmental impacts of money laundering argues that money laundering increases crime and corruption, damages a countries reputation with consequences for foreign direct investment, weakens financial institutions creating increased risks, distorts investment, and damages privatization efforts'.⁶⁴

These arguments illustrate exactly what Dani Rodrik has argued in a number of places. It is that 'foreign trade and investment have become the ultimate yardstick for evaluating social and economic policies of governments in developing countries'.⁶⁵ Development agencies now routinely justify the construction of domestic governance regimes in a whole host of sectors on the basis that they are necessary for 'investor confidence' which in turn is seen as

⁶⁰ IMF/World Bank, *Reference Guide to Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)*, chapter 10.

⁶¹ Asian Development Bank, 'Enhancing the Asian Development Bank's Role in Combating Money Laundering', p. 3.

⁶² Brent Bartlett, 'The Negative Effects of Money Laundering on Economic Development', Asian Development Bank, 2002, p. 1.

⁶³ Peter Quirk, 'Macroeconomic Implications of Money Laundering', IMF Working paper 96/66, June 1996. See also Peter Quirk, 'Money Laundering: Muddying the Macroeconomy', *Finance and Development*, 34(1), 1997.

⁶⁴ IMF/World Bank, *Reference Guide to Anti-Money Laundering (AML) and Combating the Financing of Terrorism (CFT)*, chapter 2.

⁶⁵ Dani Rodrik, 'Trading in Illusions', *Foreign Policy*, March/April, 2001, p. 55.

necessary for growth. In this view 'joining the world economy is no longer a matter of simply dismantling barriers to trade and investment. Countries now must also comply with a long list of admission requirements from new patent rules to more rigorous banking standards'. The implication of this, for Rodrik, is that 'global integration has become, for all practice purposes, a substitute for a development strategy'.⁶⁶ It is not just that as an account of the process of 'development' this is remarkably thin, it is, as Rodrik has pointed out, not well grounded in the evidence.⁶⁷

Certainly the evidence for the developmental impact of money laundering is not at all clear. This is almost inevitable given the very obvious difficulties, first, of actually measuring the extent of money laundering in any particular country, and second, of then designing robust enough tests of its impact on development variables, especially given that many developing countries have a host of 'imperfections' in their financial systems, and also given that 'development' is the result of a highly complex causal process.⁶⁸ Given that the contribution of the 'financial sector' to 'development' is itself unclear, it is hard to know how an accurate assessment of the impact of money laundering on development could be made. Even those who argue that money laundering can have negative consequences for development have admitted that 'the negative economic affects of money laundering in economic development are difficult to quantify'.⁶⁹ One attempt to quantify the impact of money laundering on growth rates found that the correlation varied with different sets of sample states.⁷⁰

In addition of course, there are potentially significant costs to developing countries from participating in the international AML regime. These too are very hard to quantify, but would include costs borne by governments, the private sector and the general public. One very crude estimate of the costs to the United States of combating money laundering is \$7 billion or about \$25 per

⁶⁶ Rodrik, 'Trading in Illusions', p. 55.

⁶⁷ Rodrik, 'Trading in Illusions', and Dani Rodrik, 'Globalisation, Social Conflict and Economic Growth', *World Economy*, 21(2) 1998, 143-158.

⁶⁸ See Charles Kenny and David Williams, 'What Do We Know About Economic Growth? Or, Why Don't We Know very Much?' *World Development*, 29(1) 2001, 1-22.

⁶⁹ Bartlett, 'The Negative Effects of Money Laundering', p. 1.

⁷⁰ Luiz Cavalcante Veiga and Joaquim Andrade, 'Money Laundering, Corruption and Growth: An Empirical Rationale for a Global Convergence on Anti-Money Laundering Regulation', Berkeley Program in Law and Economics, paper 32, 2006.

capita.⁷¹ As Edwin Truman has argued, 'even if the true figure was less than half for developing countries, say \$10 per capita, this is still a considerable amount to pay to participate fully in the global AML regime' compared, for example, with per capita health or education expenditures.⁷² As Rodrik has argued, 'setting institutional priorities to maximize integration into the global economy has real opportunity costs'.⁷³ Much more work would need to be done by those advocating the incorporation of developing countries into the global AML to show that the costs of participating in this regime really are worth bearing because of their developmental benefits. None of this implies that extensive money laundering cannot have developmental impacts. In some countries and in some cases it may well do. It is just to say that there is no really any good evidence to support this as a general argument; and it is hard to see how such evidence might be collected. In turn then, there seems little general developmental rationale for development agencies to be pursuing AML activities in developing countries.

If the pursuit of AML by development agencies is not about development, then what is it about? We can push the arguments that Rodrik has made a little further. The case of money laundering suggests not just that development policy has become synonymous with integration into the global economy via the opening of borders and the harmonization of domestic regulatory regimes; it is rather that the pursuit of anti-money laundering in developing countries is not about 'development' at all. It is about governance in the pursuit of security for western states. In other words rather than fulfilling their mandate as development agencies (albeit by pursuing a very inadequate set of policies), these agencies have become instruments in the creation of regimes of governance that respond to perceived threats to western security. And, as Rodrik has suggested, this is not a costless exercise for developing countries. The opportunity costs of implementing these AML regimes is what other, perhaps more persuasively developmental, purposes these resources could have been put to.

⁷¹ See Peter Reuter and Edwin Truman, *Chasing Dirty Money: The Fight Against Money Laundering* (Institute for International Economics, Washington, DC, 2004), chapter 4.

⁷² Truman, 'Money Laundering as a Global Public Good', p. 96.

⁷³ Rodrik, 'Trading in Illusions', p. 56.

Conclusion

There is, of course no especially good reason to think that development agencies will be terribly effective in constructing effective AML regimes in developing countries.⁷⁴ Even if such effective domestic regimes can be constructed, it is not clear how much difference will they make to the extent of money laundering within the international financial system. Whatever doubts may remain, however, about the real effectiveness of this attempt to construct domestic anti-money laundering regimes in developing countries, there is no reason at all to suppose that it is going to go away. The international AML regime continues to develop, illustrated most graphically by the 2006 United Nations Convention Against Corruption (UNCAC). Article 14 of UNCAC states that signatories shall 'institute a comprehensive domestic regulatory and supervisory regime ... in order to detect and deter all forms of money laundering', and that in establishing such a regime State Parties are called upon to 'use as a guideline the relevant initiatives of regional, interregional and multilateral organizations against money laundering'. It also states that State Parties shall 'develop and promote global, regional, subregional and bilateral cooperation among judicial, law enforcement and financial regulatory authorities in order to combat money laundering'.⁷⁵ The Legislative Guide that accompanied UNCAC specifically refers to the FATF Recommendations.⁷⁶ Second, development agencies involved in trying to create AML regimes in developing countries are not deterred by failure or slow progress. One of the characteristics of international development activity is its reflexive character. Of course reflexivity does not mean these agencies will be successful, but it does mean that, up to a point at least, they try to learn how to be more successful. But we should be aware that what they are trying to learn how to do better is not development at all; rather it is governance in the pursuit of security.

⁷⁴ For a discussion of the general issues involved here from one particular theoretical perspective see Donato Masciandaro and Alessandro Portolano, 'Terrorism and Organised Crime, Financial Regulation and Non Cooperative Countries: Inside the Black (List) Box', University of Lecce Economic Working Paper 32/14, November 2002. For one attempt to make an initial empirical assessment see Arnone and Padoan, 'Anti-Money Laundering by International Institutions: A Preliminary Assessment'. See also Truman, 'Anti-Money Laundering as a Global Public Good', pp. 102-115.

⁷⁵ United Nations Convention Against Corruption, Article 14.

⁷⁶ United Nations, Office on Drugs and Crime, *Legislative Guide for the Implementation of the United Nations Convention Against Corruption* (New York, United Nations, 2006), pp.43-54.

City University Working Papers on Transnational Politics

Promoting the pioneering approach of City University's Centre for International Politics, this series of working papers aims to disseminate the Centre's leading-edge research into transnational politics, including all its major dimensions.

Subjects covered in this series include, but are not limited to: globalization and global governance; international organizations; transnational civil society; global political economy; and the major transnational issues including development, the environment, global security, human rights, migration, and religion.

Forthcoming Papers:

A. Nesvetailova, *Ponzi Finance and Global Liquidity Meltdown: Lessons from Minsky*

P. Willetts, *The Voice of Which People? Transnational Advocacy Networks, Caucuses and Governance Networks at the United Nations*

T. R. Davies, *The Rise and Fall of Transnational Civil Society: The Evolution of International Non-Governmental Organizations since 1839*

S. Silvestri, *The Muslim Brotherhood in Europe*

Suggestions for papers welcome.

Contact the series editor, Dr Tom Davies:

tom.davies@city.ac.uk

Working Paper CUTP/001

February 2008