

# Money Laundering/Terrorist Financing **RISK ASSESSMENT SUPPORT**





# Why and How?

## Why does a Country Need a National Risk Assessment (NRA)?

A framework designed to prevent money laundering and combat terrorist financing is most effective when it targets resources there where they will have most effect. A country can make sure that resources are directed to prevent and mitigate its money laundering and terrorist financing (ML/TF) risks only by a good analysis and understanding of these risks.

This approach is in line with the recommendations of the Financial Action Task Force (FATF). FATF recommends that countries identify, assess, and understand the money laundering (ML/TF) risks within their jurisdiction and then take action to mitigate such risks, based on a risk-based approach. Although such a risk-based approach involves considerable effort, it will ensure that anti-money laundering/counter- financing of terrorism (AML/CFT) regimes are commensurate with the actual levels and types of risk encountered.

### FATF Recommendation 1

#### Assessing risk and applying a risk-based approach

Countries should identify, assess, and understand the money laundering and terrorist financing risks for the country, and should take action, 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 ...”

# How World Bank Group Can Support?

The World Bank has developed an advisory package to guide countries in conducting their ML/TF risk assessment. This advisory package consists of a risk assessment tool and a systematic process, with the broad participation of public and private sector stakeholders. The development of the tool and the advisory package started in 2007 and incorporates the World Bank's experience in assisting more than 65 countries in performing their national risk assessments.

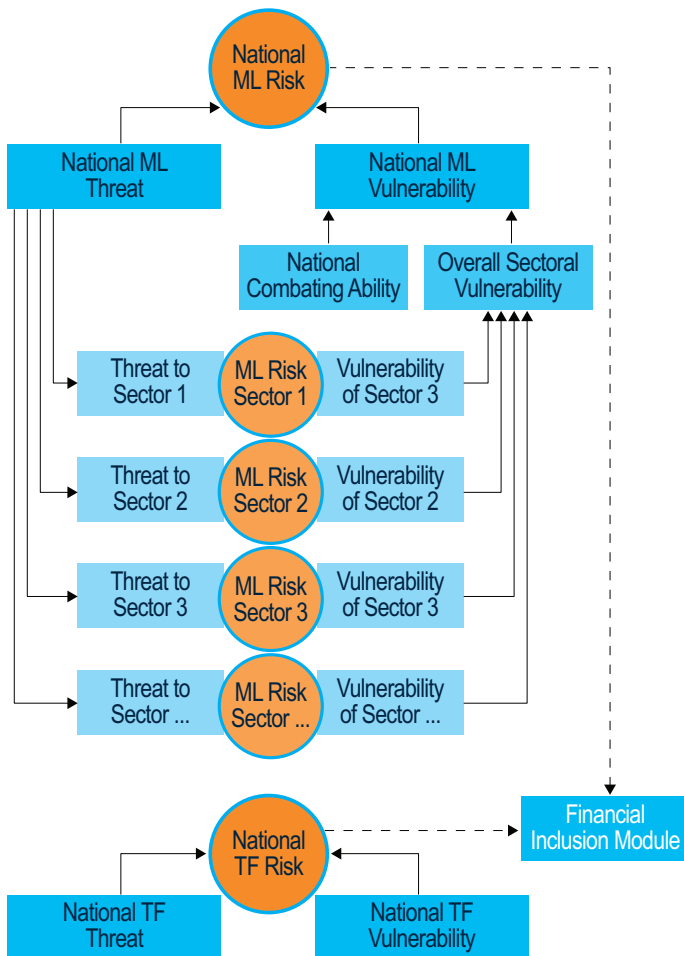
The World Bank facilitates a systematic and multidisciplinary participatory process to help countries perform their own assessment. This way, they can build capacity for the longer term and establish a process for regularly updating their understanding of the country's risks.



# The Tool

Central to the Risk Assessment advisory package is a risk assessment tool that has been developed by the World Bank. This tool enables countries to assess and understand the ML/TF risks and to develop actions to mitigate these risks. For an overview of the risk assessment tool, see figure below.

## The structure of the World Bank's Risk Assessment Tool

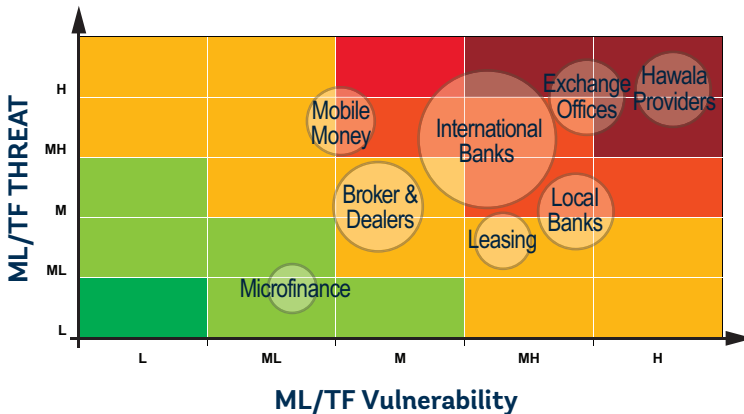


This Excel-based and transparent tool has been designed on the basis of causal relations among a set of money laundering risk factors in a country. These risk factors are related to the inherent vulnerabilities in country's economy and financial system as well as the regulatory and institutional environment that impacts the county's combating ability against money laundering. The crime environment and the financial crime trends in the country are also among the important inputs of the tool.

The tool comprises several modules, which focus on money laundering/terrorist financing threats and vulnerabilities. 'Threat' assessment focuses on the scale and characteristics of the proceeds of crime or financing of terrorism in the country, and Vulnerability' assessment on weaknesses or gaps in a country's defenses. Threats or vulnerabilities may exist at national or sector level.

The tool enables the country to assess the risks at national level and sectoral level. At the end of the assessment all the sectors are located on a risk map that constitutes the broad framework for the design of risk based approach.

### ML/TF Risk as a Function of Threat and Vulnerability\*



\*The mapping of the sectors is based on an imaginary scenario and is not associated with any particular country.

There is also a separate module for financial inclusion. This uses the outcomes from the national risk assessment to identify areas for appropriate simplification of AML/CFT controls in financial products to facilitate the greater access of underserved populations to financial services.



# The Process

The risk assessment is organized, led and owned by the country. This approach targets the development of the country's own capacity to undertake future risk assessments with no external support. The World Bank supports the country by providing training, guidance, and review through a standardized three-phase process. This process can be adapted to country circumstances, as necessary.

## Working Group for the Risk Assessment

The World Bank recommends that countries assign a dedicated coordinator for the national risk assessment and establish a Working Group to carry out the risk assessment. Generally, this Working Group will comprise representatives of all relevant AML/CFT stakeholders (e.g., the Financial Intelligence Unit, the Central Bank and/or other regulatory and supervisory agencies, self-regulatory bodies, prosecutors, law enforcement, tax and customs authorities, and other relevant authorities). In addition, the involvement of representatives of the financial and other relevant sectors is strongly encouraged. Academics may also be invited to participate. During the assessment, the Working Group divides into thematic teams, each of which focuses on a separate module of the assessment tool.

## The Three Phases of the Risk Assessment Process

The risk assessment generally takes 8 to 12 months to complete. The World Bank recommends a three-phase process, as follows:

### Phase 1 Preparation

At Phase 1, the World Bank provides written guidance on how to set up a National Risk Assessment Working Group, collect pre-assessment data and information, and manage the logistics of the assessment process. Once the Working Group has been established, the World Bank team and the Working Group representatives come together in a video conference to ensure that the preparatory phase is well organized. Good preparation at this stage, especially in relation to data and information collection, will be essential for the effectiveness of the first workshop.

## Assessment

### Phase 2

Phase 2 – the assessment itself – begins with a three-day workshop for all Working Group members. The purpose of this workshop is to introduce the assessment tool and launch the assessment process. The workshop includes a brainstorming session on the money laundering and terrorist financing risks in the country. Working Group members also get hands-on training on the Risk Assessment Tool. The assessment process starts during the workshop and usually continues for 5 to 10 months. During the workshop, the Working Group also draws up the roadmap for the completion of the assessment. The World Bank provides guidance throughout this phase, and reviews the draft risk assessment report to ensure the accurate use of the assessment methodology.

## Finalization

### Phase 3

Phase 3 is the final stage of the process. During a final three-day workshop, the Working Group discusses the risk assessment and its results, with the managements of participating agencies, and policymakers. The workshop focuses on (i) a final review and discussion of risk assessment results, (ii) the design of risk-based action plans, and (iii) a discussion of implementation issues.

## Outputs of the Risk Assessment Process

### Risk Assessment Report

A risk assessment report, which documents the assessment process, findings, and evidence, is strongly encouraged.

We recommend publishing at least a summary of the assessment. However, the dissemination strategy of the assessment results is for the country itself to decide.

### Risk-Based Action Plan

Based on the risk assessment results, a detailed action plan is developed for the implementation of a risk-based approach to prevent and mitigate the identified ML/TF risks.

### Working Papers

Producing and keeping the working papers are important for two main purposes: 1) they constitute the evidences underlying the assessment, and 2) they keep the memory of the assessment experience as a guide for future risk assessments.



## Quick Facts The Tool

A **diagnostic and decision-making tool** to inform the design of effective policies and prioritization of potential action.

**Transparent and user-friendly.** All the formulas and built-in calculations can be viewed and followed by users.

Focuses on **money laundering risks**. There is an additional module for assessing terrorist financing risks.

Can be **customized** to a country's economic context.

Balances the use of **quantitative** (data and statistics) and **qualitative information** (experience, anecdotal evidence, public or academic information, etc.)

Allows **scenario analysis**, to see the effects of various policy options.



# Quick Facts

## The Process

**Managed and owned by the countries themselves.** The World Bank's role is limited to providing technical support.

A **capacity-building activity**, which aims to enable countries undertaking future risk assessments without external support.

Aims to include all AML/CFT stakeholders from public and private sectors to bring in different perspectives and **enhance their cooperation.**

Clear timetable set at the beginning of the process, ensuring completion of the NRA **within a reasonable timeframe** (generally 6-9 months).

Helps authorities to identify **data and information gaps**, and to develop a framework for future data collection.

**Cost-effective.**



## Next Steps ...

### Understanding the risks is a new beginning!

The assessment and understanding of the risks is critical as a foundation, but the focus of the international standards is on mitigation of the risks in a risk based approach. World Bank Group can also support a country in implementation of risk based approach and capacity building towards the mitigation of money laundering and/or terrorist financing risks.



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