



Middle East and North Africa  
Financial Action Task Force

**First Annual Report  
( 2004 – 2005 )**

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## Table of contents

Foreword by the MENAFATF President _____	IV
Introduction _____	V
<b>CHAPTER ONE: Overview of the MENAFATF _____</b>	<b>6</b>
<b>A/ Overview of MENAFATF and its nature _____</b>	<b>7</b>
<i>1/ Foundation and establishment _____</i>	<i>7</i>
<i>2/ Founding members and observers _____</i>	<i>8</i>
<i>3/ MENAFATF Objectives _____</i>	<i>9</i>
<i>4/ Membership _____</i>	<i>9</i>
<b>B/ MENAFATF Structure and Funding _____</b>	<b>10</b>
<i>1/ MENAFATF Structure _____</i>	<i>10</i>
a- The Plenary _____	10
b- The Secretariat _____	11
<i>2/ Funding _____</i>	<i>11</i>
<b>CHAPTER TWO: Activities and Achievements of the Middle East and</b>	
<b>North Africa Financial Action Task Force _____</b>	<b>12</b>
<b>A/ MENAFATF Plenaries _____</b>	<b>13</b>
<i>1/ First Plenary _____</i>	<i>13</i>
<i>2/ Second Plenary _____</i>	<i>14</i>
<i>3/ Working Groups and Committees Meetings _____</i>	<i>14</i>
<b>B/ MENAFATF Participations _____</b>	<b>15</b>
<b>C/ Visits to the member countries _____</b>	<b>16</b>
<b>D/ Member countries' laws survey _____</b>	<b>17</b>
<b>E/ Identify the issues relevant to the nature, extent and</b>	
<b>methods of ML/FT in the MENA region _____</b>	<b>17</b>
<i>1/ Training and Typologies Working Group (TTWG) _____</i>	<i>18</i>
<i>2/ Typologies Workshop _____</i>	<i>18</i>
<i>3/ Cross-border payment methods _____</i>	<i>19</i>
<b>F/ Implementation of the international recommendations</b>	
<b>concerning anti-money laundering and combating the</b>	
<b>financing of terrorism _____</b>	<b>19</b>
<i>1/ Identifying the needs and providing the Technical Assistance _____</i>	<i>19</i>
<i>2/ Best practices _____</i>	<i>20</i>
a- Hawala _____	20
b- Cross-borders cash couriers _____	20
c- Charities _____	21
<i>3- Mutual evaluation _____</i>	<i>21</i>
a- Mutual Evaluation Working Group (MEWG) _____	21
b- First round of the mutual evaluation _____	22
c- "Assessors Training" workshop in Kuwait - December	
2005 _____	22

<b>CHAPTER THREE: Conferences and Seminars</b> _____	23
<b>A/ Conferences and seminars</b> _____	24
<b>B/ Dialogue with the private sector</b> _____	25
<b>CHAPTER FOUR: Financial Performance</b> _____	26
<b>A/ Auditor's report</b> _____	27
<b>B/ Financial Statements</b> _____	28



## Foreword by the MENAFATF President

**Dear Members and Representatives,  
Observers, Executive Secretary and Staff**

I feel so humbled today to address all of you on the occasion of ending my term as the first year President of the MENAFATF. I also take pleasure in recapitulating some of the accomplishments that were only possible to attain, because of a team spirit that prevailed all through this year.

April and September Plenaries held in Bahrain and Beirut respectively resolved the creation of the Mutual Evaluation Working Group, Training and Typologies Working Group and the setting up of three ad-hoc committees on Hawala, cash couriers and charities. Because of your enthusiasm and hard work, we were able to take appropriate decisions that are essential in charting a right path for our body and addressing issues that concern our part of the world.

Throughout the year 2005, we embarked on several steps designed to fulfill the objectives of MENAFATF as set out in the Memorandum of Understanding. We engaged in: Raising the level of awareness through visits to the majority of member states and holding seminars, providing technical assistance to some members, participating in the FATF plenaries - where MENAFATF was admitted as an observer - and Egmont Plenary in Washington, and training the assessors, a quintessential tool to launch the process of mutual evaluation programs scheduled to take place early next year. As well, we initiated dialogue with the private sector where we will partner the Union of Arab Banks in a regional seminar designed to address MENA banks on AML/CFT issues, and co-chaired a three-hour meeting with officials of the US Treasury where we met with a group of representatives of leading US banks and discussed opportunities leading to strengthen the business relationships between MENA and US banks. All said, we did our best to give MENAFATF the international recognition it deserves.

As my term ends, I am pleased to hand over my position to Mr. Mahmoud Abdel Latif of Egypt, and trust that with your support and commitment, he would exert every effort to build on what has been achieved and elevate MENAFATF to a higher ground. Concluding, I would like to applaud the Executive Secretary for his hard work and impressive dedication for assisting me all through in taking MENAFATF off grounds.

With my warmest regards,

Muhammad Baasiri  
**MENAFATF** President



## Introduction

**Mr. President of MENAFATF  
M/S Representatives of the Member countries and Observers**

Dear Sirs,

I have the pleasure to submit today the first annual report of MENAFATF and the Secretariat activities since the launching of MENAFATF operations till the end of 2005.

The Middle East and North Africa Financial Action Task Force was established after the ministerial meeting held in the Kingdom of Bahrain on 30 November 2004. The first plenary was also held in the Kingdom of Bahrain in April 2005, the year that witnessed several achievements including the joining of the Republic of Iraq and the Islamic Republic of Mauritania.

This report includes a review of MENAFATF activities and Secretariat efforts to fulfill the action plan that includes a lot of activities starting with the Plenaries as well as the working groups and committees meetings, the identification of issues relevant to the typologies, preparing the mutual evaluation program, the member countries' needs assessment and the provision of the appropriate training and technical assistance, through several seminars and conferences held in the MENA region. The report also includes the financial performance and 2005 auditors' reports in accordance with the Memorandum of Understanding signed by the member countries.

I am confident of the continuous support of the member countries' efforts in the field of anti-money laundering and combating the financing of terrorism. We will certainly face several challenges especially at the beginning of an institutional work based on regional and international cooperation in the field of anti money-laundering and combating financing terrorism. I hereby avail the opportunity to thank all the member countries' representatives and observers for their support and efforts to consolidate the role and efficiency of MENAFATF up through their continuous participation. I especially thank the government of the Kingdom of Bahrain; thanks should also be extended to the MENAFATF President and the Vice-President for all the efforts done to support the Secretariat during the year, and I wish that support will continue for better results.

Thank you

**Adel Hamad Al-Qulish  
Executive Secretary**

## **Chapter One: Overview of the MENAFATF**

- A/ Overview of MENAFATF and its nature
- B/ MENAFATF Structure and Funding

## ***A/ Overview of MENAFATF and its nature***

In the wake of the last century, the world witnessed a wide spread of money laundering operations allowing the criminals to benefit from the proceeds of their crimes through apparently legal means; thus paving the way to the various aspects of crime and to the violation of laws, values and ideals. In addition, the financing of terrorism that emerged enabled the use of money, not necessarily obtained through illegal sources, to carry out terrorist activities which had serious negative effects on both the humanitarian and the political levels of the countries.

These two crimes have bad repercussions on and cause prejudice to the economy both nationally and internationally. Moreover, when these crimes are combined they constitute a threat to the global security, endangering our societies, particularly in an era dominated by globalization. This phenomenon, while contributing to the development of new technologies and information technology worldwide, played a major role in facilitating the spread of money laundering and financing terrorism.

In view of the serious impact and negative effects of money laundering activities and financing terrorism on the financial, economic and political stability of a country, the need to establish and adopt international standards and principles to counter such activities has emerged.

Consequently, the establishment of the Middle East and North Africa Financial Action Task Force<sup>1</sup> came as a regional response of the founder member jurisdictions to the necessity of spreading and implementing international standards to counter money laundering and financing terrorism in the region, being aware of the risks that result from money laundering and financing terrorism in the Middle East and North Africa and knowing that such risks can only be contained efficiently through the cooperation of the countries in the region.

The MENAFATF is voluntary and cooperative in nature and is established by agreement between its members. It does not derive from an international treaty. It is independent of any other international body or organization and sets its own work, rules and procedures. Its work, rules, and procedures will be determined by consensus between its members and it will cooperate with other international bodies, notably the FATF to achieve its objectives.

### ***1/ Foundation and establishment***

The ministerial meeting held in the Kingdom of Bahrain on 30 November 2004 decided to establish a regional financial task force for the Middle East and North Africa similar to the Financial Action Task Force “FATF” for combating money laundering and the financing of terrorism under the name of Middle East and North Africa Financial Action Task Force.

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1- The word “MENAFATF” used in this report refers to the Middle East and North Africa Financial Action Task Force.



The actual start of MENAFATF was preceded by preparatory steps represented by several preliminary meetings to discuss the structure of MENAFATF and its Memorandum of Understanding. The meetings were attended by representatives of several countries that became later the member countries and observers of MENAFATF. The observing countries and organizations had the obvious role in helping the founder countries to establish and lay down the foundation stone of this entity.

***Preliminary meetings to MENAFATF establishment:***

	<b><i>Meeting Date</i></b>	<b><i>Place</i></b>	<b><i>Discussions</i></b>
<b>1</b>	October 2003	Stockholm	Discussing the idea of establishing the MENAFATF
<b>2</b>	January 2004	Manama	North Africa Countries join MENAFATF, and discussion of the Memorandum of Understanding draft
<b>3</b>	February 2004	Paris	Discussing the preliminary draft of the Memorandum of Understanding
<b>4</b>	July 2004	Paris	Determining the starting date of MENAFATF

At the ministerial meeting held in Manama on November 2004 the member countries decided to elect the candidate of the Republic of Lebanon, Dr. Muhammad Baasiri – Secretary of the Special Investigation Commission – for the position of MENAFATF President, and the candidate of the Arab Republic of Egypt Mr. Mahmoud Abdel Latif for the position of Vice President. Both will hold office for one year, the mandate for Presidency of the Vice President starting at the beginning of 2006. The choice of their successors afterwards will be in accordance with the Arabic alphabetical order starting with the Hashemite Kingdom of Jordan whose representative will occupy the position of Vice President with effect from the beginning of 2006. The meeting decided to nominate Mr. Adel Hamad Al-Qulish from the Kingdom of Saudi Arabia to the position of MENAFATF Executive Secretary for four years renewable only once.

***2/ Founding members and observers***

MENAFATF consists of 14 founding member countries namely: The Hashemite Kingdom of Jordan, the United Arab Emirates, the Kingdom of Bahrain, the Republic of Tunisia, the People’s Democratic Republic of Algeria, the Kingdom of Saudi Arabia, the Syrian Arab Republic, the Sultanate of Oman, the State of Qatar, the State of Kuwait, the Republic of Lebanon, the Arab Republic of Egypt, the Kingdom of Morocco, and the Republic of Yemen.

The current observers of the MENAFATF are: The Republic of France, the United Kingdom of Great Britain and Northern Ireland, the United States of America, the International Monetary Fund, the World Bank, the Gulf Cooperation Council (GCC), the Financial Action Task Force (FATF), the United Nations Office on Drugs and Crime (UNODC) and the Egmont Group of Financial Intelligence Units (Egmont Group).

### *3/ MENAFATF Objectives*

MENAFATF aims at developing and spreading the policies against money laundering and financing terrorism in member countries, through the implementation and application of AML/CFT international standards identified by the Financial Action Task Force “FATF” in their 40 recommendations and the nine special recommendations as well as the related Security Council resolutions.

The member countries agreed on the following objectives and will work towards achieving them:

- To adopt and implement the 40 Recommendations of the FATF against money laundering;
- To adopt and implement the Special Recommendations of the FATF against terrorist financing;
- To implement the relevant UN treaties and agreements and United Nations Security Council Resolutions dealing with countering money laundering and terrorist financing;
- To cooperate together to raise compliance with these standards and measures within the MENA Region and to work with other international organizations to raise compliance worldwide;
- To work together to identify money laundering and terrorist financing issues of a regional nature, to share experiences of these problems and to develop regional solutions for dealing with them; and
- To build effective arrangements throughout the region to combat effectively money laundering and terrorist financing in accordance with the particular cultural values, constitutional framework and legal systems in the member countries.

### *4/ Membership*

The number of MENAFATF members increased to 16 as at 31 December 2005, after having Iraq and the Islamic Republic of Mauritania who joined the MENAFATF on September 2005, raising the total number to 16 member countries.

Other countries in the Middle East and North Africa could join the MENAFATF in the future provided they commit to the following:

- Accept the objectives of the MENAFATF as set out in the Memorandum of Understanding;
- Participate in mutual evaluation programs as established by the Plenary;
- Participate in the other work of the MENAFATF; and
- Agree to contribute to the budget in accordance with contribution set by the Plenary.

It is worth mentioning that all decisions on membership will be unanimous.

The position of an observer could also be occupied by any International or Regional Organizations which support the objectives of the MENAFATF as well as by countries within the MENA Region which have applied for membership and are awaiting a decision; in addition to countries from outside the MENA Region which support the objectives of the MENAFATF.

## B/ MENAFATF Structure and Funding

### *1/ MENAFATF Structure*

The MENAFATF comprises two bodies: the Plenary and the Secretariat.

#### a- The Plenary

The plenary is formed of delegates appointed by the member states with expertise in the areas of combating money laundering and terrorist financing; the Plenary is the decision making body of the MENAFATF. The Plenary is responsible for the decision making of MENAFATF and application of its work plan.

The Plenary meets at least once a year and has some **main functions** such as:

- To determine MENAFATF policy, rules and procedures;
- To approve the annual report, work plan and budget of the MENAFATF;
- To appoint the Executive Secretary and approve the Secretariat's structure and other functions;
- To appoint an independent auditor;
- To decide upon new members and observers;
- To consider mutual evaluation reports of members' compliance with FATF standards;
- To identify technical assistance needs of member states and coordinate delivery of such assistance needs of member states and coordinate delivery of such assistance with countries and international and regional organizations providing such assistance; and
- To establish working groups if needed to undertake special tasks.

## b- The Secretariat

The Secretariat located at Manama in the Kingdom of Bahrain provides all the technical and administrative functions to perform the MENAFATFs' activities. The Secretariat exclusively carries out the following functions:

- To prepare drafts of the annual report, financial reports, work plan and budget for the Plenary;
- To implement the work program as approved by the plenary;
- To submit to the Presidency, members and observers a regular progress report;
- To administer the approved budget;
- To coordinate mutual evaluation exercises;
- To identify the training and technical assistance needs of member states and facilitate the provision of appropriate technical assistance;
- To liaise with other organizations and countries involved in combating money laundering and terrorist financing;
- To monitor worldwide AML/CFT developments and provide appropriate information to the Plenary; and
- To carry out any other functions assigned by the Plenary.

## *2/ Funding*

The activities of the MENAFATF will be funded by contributions from its members on the basis agreed by the Plenary. The Kingdom of Bahrain, as host country for the Secretariat bears the reasonable start-up costs for creating the MENAFATF Secretariat and reasonable operating costs for a period of 5 years from the date of the MENAFATF Secretariat commencing its operations in 2005.

## **CHAPTER TWO: Activities and Achievements of the Middle East and North Africa Financial Action Task Force**

- A/ MENFATF Plenaries**
- B/ MENAFATF Participations**
- C/ Member countries visits**
- D/ Member countries' laws survey**
- E/ Identify the issues relevant to the nature, volume and methods of ML/FT in the MENA region**
- F/ Implementation of the international recommendations concerning anti-money laundering and combating the financing of terrorism**

## *Introduction*

This chapter sets out the internal and external activities of the MENAFATF as well as the most important achievements during the financial year 2005. Several internal activities were carried out, including the first and second Plenaries in addition to the working group meetings. The MENAFATF was keen on visiting member countries in order to consolidate the relationship between them. On the external level, the MENAFATF participated in the activities of international meetings, conferences and seminars.

The aforementioned activities assisted in fulfilling the achievements of the MENAFATF during the year. Such achievements included the study of member countries' legislations and the identification of issues related to the nature, extent and methods of money laundering and financing terrorism in the Middle East and North Africa. These activities and achievements aimed at the implementation of the international standards concerning anti-money laundering and combating the financing of terrorism.

## *A/ MENAFATF Plenaries*

### *1/ First Plenary*

The first Plenary was held in the Kingdom of Bahrain on Monday and Tuesday 11 and 12 April 2005 and was attended by 90 AML/CFT experts from member countries and observers to discuss the most important issues and topics relevant to AML/CFT in order to enhance the conformity to the international standards and procedures in the Middle East and North Africa and to exchange experiences with the observing countries and international organizations. The first plenary approved the internal policies, procedures and mechanisms that control the operations of the MENAFATF in addition to other internal issues relevant to the activity of the Secretariat, the most important of which were the 2005 work plan, the establishment of working groups and committees and the budget. Some of the most important decisions were:

- Approve of the drafting of the MENAFATF by-laws to regulate the internal bodies and operations;
- Provide the Secretariat with the required highly qualified and trained personnel;
- Establish a Mutual Evaluation Working Group consisting of six member countries namely: Tunisia, Algeria, Saudi Arabia, Syria, Kuwait and Egypt, in addition to the following observers: International Monetary Fund, World Bank and Financial Action Task Force;
- Establish a Training and Typologies Working Group consisting of five member countries namely: UAE, Bahrain, Lebanon, Morocco and Yemen in addition to the following observers: International Monetary Fund, World Bank and the United Nations Office on Drugs and Crime.

- Establish three committees of the member countries specialized in several important issues for the region as follows:
  - ◆ Hawala (Jordan, UAE, Algeria and Egypt).
  - ◆ Cash Couriers (UAE, Qatar and Kuwait).
  - ◆ Charities (UAE, Saudi Arabia, Kuwait and Egypt).

## *2/ Second Plenary*

The same year witnessed MENAFATF second Plenary at Beirut in the Republic of Lebanon on Monday and Tuesday 26 and 27 September 2005, which was attended by 100 experts. The plenary discussed the results of the recommendations of the committees and working groups established during the first Plenary as well as the results of the first Plenary decisions. The most important decisions approved by the second Plenary were:

- Accept the membership proposals of both The Republic of Iraq and the Islamic Republic of Mauritania;
- Approve the paper submitted by Hawala ad-hoc Committee and publish it on MENAFATF website;
- Approve the paper submitted by Cash Couriers ad-hoc Committee and publish it on MENAFATF website;
- Approve the paper submitted by Charities ad-hoc Committee and publish it on MENAFATF website;
- Approve MENAFATF work plan for 2005 – 2006;
- Approve Typologies workshops framework and mechanism;
- Approve the “Cross-border payment methods” for the typologies topics;
- Approve the framework and the mechanism of training; and
- Emphasize the importance of out-reaching the private sector to fulfill the main aim of the MENAFATF in combating money laundering and the financing of terrorism and finding the means to enhance the awareness and obtain the technical assistance.

## *3/ Working Groups and Committees Meetings*

In addition to the two Plenaries, MENAFATF Secretariat organized several meetings for the working groups and the committees. Several issues and topics relevant to MENAFATF policies and procedures were considered, after which the results and recommendations were submitted to the Plenary for approval.

In 2005, the Secretariat held numerous meetings at the countries of the region as shown in the following schedule:

### *Working Groups and Committees Meetings:*

	<i>Meeting Date</i>	<i>Place</i>	<i>Meeting</i>
<b>1</b>	11 July 2005	Damascus	Mutual Evaluation Working Group
<b>2</b>	13 September 2005	Amman	Hawala Committee
<b>3</b>	14 September 2005	Kuwait	Charities Committee
<b>4</b>	15 September 2005	Doha	Cash Couriers Committee
<b>5</b>	25 September 2005	Beirut	Mutual Evaluation Working Group
<b>6</b>	25 September 2005	Beirut	Training and Typologies Working Group

### **B/ MENAFATF Participations**

The MENAFATF committed to follow the developments in the field of AML/CFT through the participation of the President and the Secretariat in the international meetings, conferences and seminars. The MENAFATF was also keen on taking profit from its attendance and participation in the international activities as well as in cooperating with the international organizations to counter financial crimes in general and money laundering and financing terrorism in particular. Through efforts, determination, continuous and effective participation in FATF Plenaries and Egmont Group meetings, the MENAFATF proved its capabilities in submitting topics relevant to the most important issues in the field of its work.

MENAFATF participation in such meetings aims at consolidating the international organizations efforts in AML/CFT specially the participation in the FATF Plenary after obtaining in February 2005 an observer status within their meetings held.

In addition, MENAFATF participates to the activities of the other FSRBs. The FATF in cooperation with the Financial Action Task Force for South America (GAFISUD) organized typologies workshops in November 2005 to discuss the possibility of exploitation of money launderers and terrorism financiers of the following issues:

- Misuse of corporate vehicles
- New payment methods
- Trade based money laundering
- ML and TF trends and indicators
- Complex money laundering schemes: Regional perspectives



*Schedule of MENAFATF participations in the year 2005:*

	<i>Date</i>	<i>Place</i>	<i>Meeting</i>
<b>1</b>	07-11 February 2005	Paris	FATF Plenary
<b>2</b>	06-10 June 2005	Singapore	FATF Plenary
<b>3</b>	27/06- 01/07/2005	Washington	Egmont Group plenary meeting
<b>4</b>	10-14 October 2005	Paris	FATF Plenary
<b>5</b>	28-30 November 2005	Brazil	Workshops on typologies organized by FATF and GAFISUD
<b>6</b>	08-09 December 2005	Brussels	FATF Consultative meeting with the Private Sector

**C/ Visits to the member countries**

The MENAFATF President and Executive Secretary paid several visits to the officials at the member countries for more acquaintance with the MENAFATF and its future role as well as to consolidate the relations with them and discuss ways of cooperation.

Several meetings were held with the officials of the ministries of finance, central banks, financial intelligence units, and AML/CFT committees in order to discuss issues relevant to the operation of the MENAFATF and review the plans and programs ready for implementation. The MENAFATF observed the expansion of its operations to communicate with the private sector and held several meetings with the representatives of the commercial banks and national banks assemblies.

*Visits to the Member countries:*

<i>Country</i>	<i>Visit Date</i>	<i>Meeting</i>
<b>Lebanon</b>	January	Central Bank of Lebanon Governor
<b>Syria</b>		Prime Minister, Minister of Finance, Central Bank of Syria Governor
<b>Bahrain</b>		Minister of Finance, Officials of the Ministry, the Secretariat.
<b>United Arab Emirates</b>		Central Bank Governor, Officials of the Central Bank

<i>Country</i>	<i>Visit Date</i>	<i>Meeting</i>
<b>Egypt</b>		Central Bank Governor, Banking Training Institute Manager.
<b>Jordan</b>	February	Central Bank Governor, along with some officials, a meeting with Jordanian Banks Representatives.
<b>Kuwait</b>	March	Central Bank Governor, Some Officials, a meeting with the Association of Kuwaiti Banks
<b>Qatar</b>		Central Bank Governor along with some officials, a meeting with the banking sector representatives.
<b>Yemen</b>	May	Central Bank Governor, Ministry of Finance, Anti-Money Laundering Committee, Association of Banks.
<b>Oman</b>		Executive President of the Central Bank, Commercial Banks Representatives, Ministry of the National Economy, Capital Markets and the Police Headquarters.
<b>Saudi Arabia</b>		Governor of the Saudi Arabian Monetary Agency, Deputy Secretary General of the GCC.

#### D/ Member countries' laws survey

The Secretariat was keen on taking profit from the experiences of member countries mainly from what has been set out by the Special Investigation Committee – the Lebanese FIU – which drafted a “preliminary comparative survey” of the member country legislations relevant to anti-money laundering and combating the financing of terrorism and submitted it to the Secretariat. The survey was done in the form of tables including a summary of the most important legal and regulative parts of the member jurisdiction legislations relevant to AML/CFT. This survey is an authoritative source for the Secretariat to review the member country laws. The survey is also useful as a working paper for the mutual evaluation exercises that assist the members in identifying the similarities and differences in their laws and finding the means to create a kind of consistency.

#### E/ Identify the issues relevant to the nature, extent and methods of ML/FT in the MENA region

One of the main aims of establishing the MENAFATF was to determine the issues relevant to the regional money laundering and terrorism financing, to

exchange the experiences in this field and to tackle the relevant regional solutions.

The suggestions made by countries on topics related to typologies that are discussed in the Training and Typologies Working Group and the designation of the relevant team to collect, discuss and review some case studies in special workshops shall facilitate the identification of the means of money laundering and terrorism financing.

### *1/ Training and Typologies Working Group (TTWG)*

The TTWG consists of five member countries namely: UAE, Bahrain, Lebanon, Morocco and Yemen, in addition to the observers: International Monetary Fund, World Bank and the United Nations Office on Drugs and Crime, and is headed by the United Arab Emirates. TTWG mandate is to inform the member countries about the newly adopted methods and trends that could be used as indicators for money laundering and financing terrorism. The WG aims at providing specialized training for the member countries in the field of AML/CFT in order to increase the experiences and enhance the awareness within the MENA area. The WG also aims at the various sectors of the governmental authorities as well as the private sector, especially banks and financial establishments within the geographical limits of the MENAFATF.

### *2/ Typologies Workshop*

The purpose of Typologies workshops is to collect the data and information that assist the legislators of the MENAFATF countries in developing and improving AML/CFT laws and regulations, and give the officials and the parties responsible for the implementation of the law the opportunity to learn about current methods and trends of money laundering.

In addition, the results of the annual workshops relevant to the methods and trends of ML/FT are the basic source of information for a wide range of concerned parties such as the regulatory authorities, the legal authorities responsible for the implementation of the law, the financial intelligence units and the public. The Plenary approved the typologies framework stipulating the mechanism applied by the Secretariat and working groups to collect, analyze and publish the information in addition to organizing typologies workshops. The typologies framework also includes the mechanism of collecting reports relevant to the trends and indicators as well as obtaining case studies from the member countries, followed by drafting typologies reports that shall be published in order to be widely utilized by both the public and the private sectors.

### *3/ Cross-border payment methods*

The Plenary approved the topic of “cross-border payment methods” and its vulnerabilities to ML/FT. A work plan was actually drafted in addition to a special questionnaire to collect the information to be analyzed by the concerned workshop from the member countries and prepare for a special workshop for 2006. In this workshop, the member countries shall present real cases and adopted counter measures thus assisting other countries to avoid such operations.

### *F/ Implementation of the international recommendations concerning anti-money laundering and combating the financing of terrorism*

The establishment of the Financial Action Task Force (FATF) by the G7 in 1989 was an international response to consolidate and develop anti-money laundering policies on national and international levels. The FATF issued its first recommendation in 1990 which was later amended in 1996. The FATF also issued a number of interpretative notes stipulating or clarifying the details of some recommendations. The immediate response of the FATF to the 2001 terrorist attacks came by issuing special recommendations on combating the financing of terrorism and invited the world to comply with these recommendations. In order for the MENAFATF to adopt the implementation of these recommendations, the following means were applied:

#### *1/ Identifying the needs and providing the Technical Assistance*

The technical assistance and training form an important part of the work program to assist the member countries in applying the international standards. The MENAFATF developed a clear working strategy to identify study and discuss the members’ needs and provide the appropriate technical assistance that enhances the compliance with the international standards.

The MENAFATF, in cooperation with the IMF and the World Bank, drafted a questionnaire to determine the required technical assistance (TA Questionnaire). The questionnaire was distributed to the members and a Technical Assistance Donor forum was held on the margin of the second MENAFATF plenary in September 2005 to discuss the technical needs and assistance, in which the following subjects were presented:

- A comprehensive presentation of the fulfilled work relevant to the needs identification and the follow up of the questionnaires.
- Presentation of the technical assistance programs and future working plans by the donors.
- A number of individual meetings between the countries requiring technical assistance and the donors to discuss and determine the needs and the mechanism to provide such assistance.

## *2/ Best practices*

Considering the importance of the technical research and studies that may be conducted by the MENAFATF experts' to face, combat and prevent money laundering and financing terrorism, the MENAFATF has achieved an excellent work through the creation of three technical specialized committees gathering some of the member countries.

This achievement was carried out by examining three crucial subjects connected to the region, in order to circulate the best practices to be implemented by member countries related to the Hawala, cash couriers and charities, thereby enhancing their laws and regulations in accordance with FATF special recommendations.

### a- Hawala

Informal remittance systems are considered part of the traditional ways to transfer money based on ethnic, cultural or social factors that led to spreading them around the world before the emergence of recent banking systems. These old systems were based on correspondence and trust, without requiring any proof as to the identity of the transferors, or checking suspected operations and notifying the same. In this case, transferring money occurs through an informal network, without usually any physical or electronic movement of money and the settlement takes place between the hawaladar (intermediary commander) and the other hawaladar (intermediary receiver) from whom the money is received.

The SR VI sets a norm stipulating that countries should impose the implementation of anti-money laundering requirements on informal remittance systems, such as registration and licensing formalities, defining agents' identity and reporting suspected operations. In an effort to protect these systems from the danger of being exploited by money launderers or terrorism financiers and to strengthen the commitment of member countries to SR VI, the best practices issued by the MENAFATF related to the "Hawala" presented the control means that may be applied on these systems, benefiting from the experience of some countries in the region in that field.

### b- Cross-borders cash couriers

With the change in economic systems in recent years and the tendency of many countries to apply free economy and economic openness to other countries regardless of their political tendencies, in the framework of world globalization, in view of the crucial importance to take the necessary measures to fight money laundering and combat the financing of terrorism, and in addition to its eight special recommendations on anti-money laundering, the FATF issued its SR IX as a main frame to monitor and counter money laundering and combat the financing of terrorism.

In order to help MENAFATF member countries to implement this recommendation and keen on tackling the issue of cash couriers due to its importance and to the dangers that might be encountered by countries in case cross-borders cash couriers are used as a means to launder suspected funds or to

support and finance terrorism, the MENAFATF issued the paper on cross-borders cash couriers in its second plenary. The paper provided for the SR IX issued by the FATF about financing terrorism and the regulations to be implemented by member countries according to the best international practices, proposing an implementation strategy. This paper was circulated as was the case with the previous paper.

### c- Charities

With the purpose of supporting the great and distinguished humanitarian positive role played by charities aiming at the consolidation of unity and social ties among the various social classes, and so as to prevent this sector from potential dangers if misused by money launderers or terrorism financiers, the MENAFATF has issued its recommendations about the implementation of SR VIII such as the Best Practices paper which constitutes a guideline for member countries to regulate the legal, regulatory and financing frameworks of charities in addition to a suggested strategy to regulate foreign charitable operations.

## *3- Mutual evaluation*

The Memorandum of Understanding stipulates that the Plenary should organize a continuous evaluation program in cooperation with the MENAFATF Secretariat. All the members should agree to participate to the program. The MENAFATF shall carry out the first round of evaluation of its members to determine their conformity with the recommendations and the nine special recommendations issued by the FATF by using the 2004 AML/CFT Methodology and any modifications thereto.

The objective of the evaluation is to assess individual's existing AML/CFT regimes by a team of assessors' expert in the field of AML/CFT who are required to review and analyze all current laws and regulations related to AML/CFT in the assessed country to define its efficiency and conformity with the international recommendations.

### a- Mutual Evaluation Working Group (MEWG)

The MEWG formed during the first Plenary by six member countries (Tunisia, Algeria, Saudi Arabia, Syria, Kuwait and Egypt) in addition to the International Monetary Fund, the World Bank and the FATF, aims at working with the MENAFATF Secretariat to prepare and organize the mutual evaluation program for member countries within the MENAFATF.

The functions of the mutual evaluation working group have been set as follows:

- Preparing the mutual evaluation procedures based on the AML/CFT Methodology issued by the FATF, the IMF and the World Bank.

- Working on spreading a mutual understanding of the applied methodology which should correspond to the understanding of the FATF, the IMF and the World Bank.
- Setting criteria to define the assessors' qualifications and experience.
- Preparing a schedule for the mutual evaluation conducted by member countries in the MENAFATF and coordinating with other financing institutions to avoid any duplication.

#### b- First round of the mutual evaluation

For the purpose of assessing the compliance of the AML/CFT regime in member countries with the FATF recommendations, MENAFATF adopted a time schedule for mutual evaluation starting from the first round in April 2006, so as to evaluate 2 to 3 countries yearly.

Based on the work plan prepared in this purpose, a number of experts were trained and formed to the future operation of mutual evaluation. The MENAFATF shall send four specialized money laundering experts to examine laws and regulations related to fighting money laundering and combating the financing of terrorism, and suggest recommendations to the concerned state to remedy to shortages if any; the MENAFATF will debate issued reports and adopt and publish them on the MENAFATF website.

#### c- "Assessors Training" workshop in Kuwait - December 2005

In order to perform the mutual evaluation, the training of member countries' experts in fighting money laundering and combating the financing of terrorism should be carried out so that these latter become acquainted with the 2004 methodology issued by the FATF, the IMF and the World Bank to assess the compliance of these member countries with FATF recommendations.

From 17-21 December 2005, MENAFATF organized in cooperation with the Central Bank of Kuwait, the IMF, the World Bank and FATF, a workshop entitled "Assessors Training". Most member countries participated through their AML/CFT experts who gained experience and did the necessary training to become able to carry out this exercise efficiently and adequately.

## **CHAPTER THREE: Conferences and Seminars**

**A/ Conferences and seminars**

**B/ Dialogue with the private sector**



## *Introduction*

The MENAFATF enjoys solid relations with numerous international organizations such as the International Monetary Fund, the World Bank, the FATF, the UNODC, the GCC and Egmont Group, that participate in Plenary sessions as observers. Working on consolidating cooperation between the MENAFATF and the international organizations classifies MENAFATF as part of the international anti-money laundering community.

It is worth noting the help that may be provided by these organizations to MENAFATF members in the frame of needs identification, providing technical assistance and benefiting from their experience in the field of anti-money laundering and combating the financing of terrorism, for the preparation of their policies and procedures.

MENAFATF has for example collaborated this year with all international observing and non-observing organizations such as the Union of Arab Banks, in setting up various conferences, seminars and workshops.

## *A/ Conferences and seminars*

- On the 2<sup>nd</sup> & 3<sup>rd</sup> of April, MENAFATF partnered with the UAE Central Bank a conference on Hawala. Renowned speakers from around the world spoke to participants from the MENA region on the latest in the subject and the prevailing ML threats and issues.
- On April 13<sup>th</sup> & 14<sup>th</sup>, MENAFATF in cooperation with the IMF and World Bank ran in the margins of the 1<sup>st</sup> Plenary in Bahrain, a seminar on "Awareness Raising" which aims at updating MENAFATF representatives on recent AML/CFT issues.
- On April 18<sup>th</sup> – 20<sup>th</sup>, MENAFATF with the cooperation of Union of Arab Banks (UAB) organized in Lebanon, a seminar for combating money laundering and terrorist financing. Bankers and delegations from Arab countries attended this seminar, in addition to experts from USA, IMF and Egmont Group.
- On May 24<sup>th</sup> & 25<sup>th</sup>, MENAFATF was one of the key organizer of the summit on the "Rise and effectiveness of Corporate Governance in the Islamic Financial Services Industry" sponsored by Central Bank of Qatar.
- On September 1<sup>st</sup> & 2<sup>nd</sup>, MENAFATF in cooperation with UAB organized a seminar in Sharm El-Sheikh in Egypt on money laundering and terrorism financing combat.
- On September 28<sup>th</sup>, in the margins of the second Plenary held in Beirut, MENAFATF organized with the coordination of IMF, WB, UNODC, a "Technical Assistance Donor Forum", in which donors presented their TA programs, followed by bilateral meetings.

- On September 29<sup>th</sup>, MENAFATF organized a seminar on International cooperation which aims to highlight the Mutual Legal Assistance Issues and Challenges.
- On November 19<sup>th</sup> – 21<sup>st</sup>, in collaboration with the Central Bank of United Arab Emirates and US Department of Justice, MENAFATF organized a regional conference on “Investigating and Prosecuting Advanced Financial Crimes” which took place in Abu Dhabi, United Arab Emirates.
- On December 14<sup>th</sup>– 15<sup>th</sup> , MENAFATF in cooperation with the Central Bank of Syria, IMF, & WB held a two days conference on "Developing an Effective AML/CFT Regime" in Damascus, Syria.
- On December 17<sup>th</sup> -21<sup>st</sup> in Kuwait, MENAFATF organized with the Central Bank of Kuwait a one-week workshop on 'Training the Assessors'. This seminar` was coordinated with the IMF, WB and the FATF.

## B/ Dialogue with the private sector

The MENAFATF insisted on striking up a relation with the private sector and opening a dialogue on fighting money laundering and combating the financing of terrorism.

Through its collaboration with the US Treasury Department, the MENAFATF launched a dialogue through a panel from the MENAFATF, the Union of Arab Banks, the Association of North American Bankers and the Association of Bankers for Trading and Financing.

The aim of this panel is to:

- Establish a real cooperation among Trade Banks in the Middle East and North Africa and American Trade Banks to fight money laundering and combat the financing of terrorism;
- Circulate international initiatives in the field of AML/CFT and;
- Collaborate in offering technical assistance, along with training and educational programs for raising awareness, improving contact channels and laying bridges among various cultures.

During the year 2006, conferences and seminars on anti-money laundering and combating the financing of terrorism shall be held as well according to a specific work plan.

## **CHAPTER FOUR: Financial Performance**

**A/ Auditor's report**

**B/ Financial statements**



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**AUDITORS' REPORT TO  
MIDDLE EAST AND NORTH AFRICA FINANCIAL ACTION TASK FORCE  
(MENAFATF) PLENARY**

We have audited the accompanying balance sheet of Middle East And North Africa Financial Action Task Force (MENAFATF) ("the Organisation") as at 31 December 2005, and the related statements of income and expenditure and cash flows for the period from 30 November 2004 to 31 December 2005. These financial statements are the responsibility of the Organisation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform our audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Organisation as at 31 December 2005, and the results of its operations, and the changes in its cash flows for the period then ended in accordance with the International Financial Reporting Standards as promulgated by the International Accounting Standards Board.

*BDO Jawad Habib*

Manama, Kingdom of Bahrain  
13 March 2006



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**Middle East And North Africa Financial Action Task Force (MENAFATF)**  
**Balance sheet at 31 December 2005**  
**(Expressed in United States Dollars)**

	<u>2005</u>
<b>ASSETS</b>	
<b>Non-current assets</b>	
Machine and equipment	<u>15,633</u>
<b>Current assets</b>	
Other receivables	1,449
Cash and bank balances	168,338
	<u>169,787</u>
<b>Total assets</b>	<u>185,420</u>
<b>FUNDS EMPLOYED AND LIABILITIES</b>	
<b>Funds employed</b>	
Accumulated fund	128,851
<b>Non-current liabilities</b>	
Employees' terminal benefits	<u>6,149</u>
<b>Current liabilities</b>	
Trade and other payables	<u>50,420</u>
<b>Total funds employed and liabilities</b>	<u>185,420</u>

These financial statements were approved by the Secretariat on 13 March 2006 and signed on their behalf by:



Adel Al Qulish  
 Executive Secretary



**Middle East And North Africa Financial Action Task Force (MENAFATF)**  
**Statement of income and expenditure for the period from 30 November 2004**  
**to 31 December 2005**  
**(Expressed in United States Dollars)**

	Period from 30 November 2004 to 31 December <u>2005</u>
Government funding	500,000
<b>Expenditure</b>	
Staff costs	(194,915)
General and administrative expenses	(174,997)
Depreciation	<u>(1,237)</u>
	(371,149)
<b>Surplus for the period transferred to accumulated fund</b>	<u>128,851</u>

These financial statements were approved by the Secretariat on 13 March 2006 and signed on their behalf by:



Adel Al Qulish  
Executive Secretary

