



Middle East & North Africa Financial Action Task Force

Third Annual Report (2007)



Foreword by MENAFATF President

Dear Members, Observers, Executive Secretary and Staff

First, I would like to express my deepest gratitude for the efforts you exerted in 2007 to achieve the goals of the Middle East & North Africa Financial Action Task Force (MENAFATF) through cooperation among member countries in the MENA region and through the exchange of expertise in the field of AML/CFT.

Since its establishment on 30 November 2004, the MENAFATF has worked to increase public awareness through arranging visits to most member countries, organizing workshops and seminars in the field of AML/CFT, in addition to providing technical assistance to some member countries.

Intensified efforts and cooperation grew more grand and substantiated since early 2007 to achieve a number of goals through the MENAFATF Plenary Meetings, such as the fifth plenary meeting held in the Hashemite Kingdom of Jordan in April and the sixth plenary meeting held in the Syrian Arab Republic in November. The MENAFATF has also been granted the “Associate Member” status by the Financial Action Task Force (FATF). Such status entitles five member countries to attend FATF plenary meetings and participate in its work. Moreover, MENAFATF has achieved a number of achievements that can be summarized as follows:

- Forming two ad-hoc committees on the Designated Non-Financial Businesses and Professions (DNFBPs), and on Politically Exposed Persons (PEPs).
- Approving the Arabic version of the Methodology and the Handbook.
- Adopting the mutual evaluation reports (MER) of Tunisia and Morocco.

It is worth noting that the MENAFATF Plenary has approved the request submitted by the Asia/Pacific Group on Money Laundering (APG) for the observer status. Thus, the number of observers to the MENAFATF has reached 12, which proves the MENAFATF keenness on interacting and cooperating with counterpart regional organizations.

Dear MENAFATF Member Countries,

Allow me to take this opportunity to express my deepest gratitude and appreciation for the Kingdom of Bahrain and H.E. Sheik Khaled Bin Ahmad Bin Mohammad Al-Khalifa, the Minister of Foreign Affairs for the tremendous support provided by the Government of Bahrain to ensure success of the MENAFATF. This was clearly shown in the signing of a permanent Headquarters Agreement with the Kingdom, which includes providing all required procedures and facilities to the MENAFATF Secretariat in its work

and direct cooperation with different parties. I would like also to thank the Secretariat employees and specifically the MENAFATF Executive Secretary, Mr. Adel Al-Qulish and compliment them on their great efforts and devotion to the success of MENAFATF.

At the end of my presidency term of 2007, I am honored to hand over the MENAFATF presidency to Mr. Abdulrahim Mohamed Al Awadi from the United Arab Emirates to build on the past successes in order to continue the journey of MENAFATF success. I wish him and the United Arab Emirates plenty of success and prosperity.

Thank you very much for your kind attention

Best Regards,

Dr. Umayya Toukan

President,

Middle East & North Africa

Financial Action Task Force



Foreword by the Executive Secretary

Mr. President, distinguished delegates of member countries and observers,

Following the previous two annual reports on the activities and accomplishments of the Middle East & North Africa Financial Action Task Force (MENAFATF) for the first two years since its establishment, I take pleasure in introducing hereunder the third annual report, for the year 2007.

Attached to money laundering and terrorist financing are numerous risks and negative consequences on all scales. Given the border-crossing nature of these two crimes, by default influencing and linking many countries, it was imperative for countries to stand shoulder to shoulder and cooperate to face and counter the risks they pose.

Middle East and North African countries have taken several actions and measures to combat money laundering and terrorist financing, such as introducing laws and legislations criminalizing them, imposing sanctions against their perpetrators, establishing financial intelligence units, obliging financial institutions and designated non-financial businesses and professions to report ML/TF-suspected operations, and promoting the role of supervisory authorities in this field. Determined to mobilize their efforts in the combating field and support regional cooperation in the fight of the two crimes, and committed to relevant international standards, countries of the region established the Middle East and North Africa Financial Action Task Force (MENAFATF) on Combating Money Laundering and Terrorist Financing in November 2004.

Since its inception, the MENAFATF work has witnessed an upward track of activity with successive achievements at all levels. The first strategic plan (for 2007-2009) was approved. It encompassed strategic goals for the work of the MENAFATF on the regional level through reinforcing and supporting cooperation and coordinating efforts among member countries, with the support and participation of the Secretariat.

Those goals included several vital scopes, among the most important of which were pursuing the mutual evaluation process, enhancing relations with regional and international institutions and organizations, raising awareness of members in the field of typologies, and providing technical assistance needed by some member countries by coordination with donors. The said plan marked the way to achieving its goals by setting the tasks that should be done and accomplished during this crucial phase of the MENAFATF's life to build on the strong start it had at birth.

Recognizing the pivotal importance of the mutual evaluation process, the MENAFATF continued the implementation of the timeline of the first mutual evaluation round through 2007, with mutual evaluation reports for a number of member countries discussed, adopted, and published on the group's website.

In the sphere of strengthening the ties and exchanging expertise with counterpart regional bodies, the MENAFATF approved during 2007 reciprocating an observer seat with the Asia Pacific Group and, accordingly, exchanging Mutual Evaluation Reports with it on a reciprocal basis. This came to highlight the success of the MENAFATF and its leading regional role.

The MENAFATF's obtaining of the Associate Membership of the FATF as well as among the most prominent achievement that were realized during 2007. It came in appreciation by the FATF of the candid efforts exerted by the MENAFATF in the AMLCFT regimes' development arena and in recognition of the effectiveness and seriousness of the actions taken by the MENAFATF since its establishment in November 2004. The new status with FATF entitles increasing the participation in its activities, contributing in its discussions and decisions, and reflecting the regional viewpoint. This is achieved through giving five member countries the opportunity to attend FATF plenary and working group meetings.

Furthermore, the MENAFATF continued its cooperation with prominent international institutions and organizations within its scope of work, such as the International Monetary Fund, the World Bank, and the United Nations Office on Drugs and Crime, in addition to the private sector. In this respect, it contributed to the organization and participation in events aimed to raise the level of awareness and enhance the capacity of countries on different levels and in various fields, such as training, mutual evaluation, and the technical assistance they need.

During 2007, the Kingdom of Bahrain, as the Secretariat headquarters country, underscored its full support of the MENAFATF and its keenness to provide the suitable environment for the Secretariat to carry out its functions. In this context, the Government of Bahrain signed the Headquarters Agreement with the MENAFATF. The Agreement provides for the necessary facilities to be provided by the Government of Bahrain to the Secretariat in order for it to perform its functions and to deal freely with the different authorities, and it also includes giving the staff of the Secretariat a diplomatic status. This will give more stability to the internal work of the Secretariat.

On the occasion of concluding the MENAFATF third year and introducing its annual report, I would like to extend my thanks and gratitude to all those who participated in achieving these accomplishment. I would specially thanks H.E.

Dr. Umayya Toukan, Governor of the Central Bank of Jordan and the 2007 MENAFATF President. He contributed through his effort and continuous cooperation in realizing these achievements. I would also like to thank all the representatives of member countries and observers for their active participation in the MENAFATF activities. I would not forget to thank the Secretariat team for the outstanding efforts they make.

I ask God to perpetuate the progress and advancement of this group and to always crown all our work and efforts with success.

Adel H. Al Qulish
Executive Secretary,
Middle East & North Africa
Financial Action Task Force

Table of Contents

CHAPTER ONE: Brief Overview of MENAFATF	1
<i>A/ Overview of MENAFATF and its Nature</i>	2
1/ Foundation and Establishment	2
2/ MENAFATF Objectives	3
3/ Members and Observers	3
4/ Criteria for Accession to MENAFATF Membership	4
5/ Criteria for Holding an Observer Status at MENAFATF	4
<i>B/ MENAFATF Structure and Funding</i>	6
1/ MENAFATF Structure	6
a- The Plenary	6
b- The Secretariat	7
2/ Funding	7
CHAPTER TWO: MENAFATF Activities and Achievements	9
<i>A/ MENAFATF Meetings</i>	10
1/ Fifth Plenary	10
2/ Sixth Plenary	11
3/ Meetings of WGs and Committees	11
<i>B/ Relationship with International and Regional Bodies and Organizations</i>	12
<i>C/ Visits to Member Countries</i>	13
<i>D/ Identifying Topics Related to the Nature, Size and Methods of ML/TF Operations in the MENA Region.</i>	14
1/ The Technical Assistance & Typologies Working Group (TATWG)	14
2/ Typologies Topics	15
<i>E/ Implementation of FATF Recommendations on AML/CFT</i>	16
1/ Identifying the Needs and Provision of Technical Assistance	16
2/ Best Practices	16
3- Mutual Evaluation	16
a- Mutual Evaluation Working Group (MEWG)	17
b- First Round of ME	17
c- Assessors' Training	18
CHAPTER THREE: Conferences and Seminars	19
<i>A/ Conferences and seminars</i>	20
<i>B/ Dialogue with the Private Sector</i>	21
CHAPTER FOUR: Financial Performance	22
<i>A/ Auditor's Report</i>	23
<i>B/ Financial Statements</i>	24

CHAPTER ONE: Brief Overview of MENAFATF

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

A/ Overview of MENAFATF and its Nature

The special nature of Money Laundering (ML) and Terrorist Financing (TF) as two translational crimes, has called for worldwide joint efforts to combat them. Indeed, ceasing to combat ML will lead to numerous risks either on national economies or banking sector levels. It will also leave negative consequences on both the political and social arenas. Likewise, the wide spread of terrorism financing will have serious impacts, terrorizing secure citizens and threatening public security. This has led countries to unite and support combating these two serious phenomena.

The Financial Action Task Force (FATF) initiative to call for the creation of FATF Style Regional Bodies (FSRBs) was an effective means to support regional AML/CFT efforts. To keep pace with the global community, fourteen countries from the MENA region decided to establish the MENAFATF in November 2004 with the aim to combat ML/TF, and promote and implement international AML/CFT standards in the region. These countries have recognized the risks emanating from ML/TF operations to the MENA region, and recognized that these risks can be efficiently countered through this regional body.

Item 2 of the Memorandum of Understanding¹ (MOU) provides that "the MENAFATF is voluntary and co-operative 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 co-operate with other international bodies, notably the FATF to achieve its objectives".

1/ Foundation and Establishment

On 30 November 2004, a ministerial meeting was held in Manama, Kingdom of Bahrain, and decided to create the MENAFATF. Item 8-2 of the MOU provides that the MENAFATF Plenary will elect a President and President Elect/Vice President who will remain in office for one year, from amongst its members, provided that the said President and President Elect are not from the same country.

During the said meeting, member countries agreed that the positions of President and Vice-President shall be assigned in rotation following the first two years, according to the Arabic alphabetical order, starting with the Hashemite Kingdom of Jordan, which assumed the presidency of the MENAFATF in 2007. During the same meeting, member countries also decided to appoint Mr. Adel Hamad Al-Qulish from the Kingdom of Saudi Arabia, as Executive Secretary of MENAFATF for a period of four years that may be renewed once.

¹ The Memorandum of Understanding pursuant to which MENAFATF was established, signed by member countries.

2/ MENAFATF Objectives

The MOU provides for six objectives which the MENAFATF will work towards achieving:

- 1- To adopt and implement the 40 Recommendations of the FATF against money laundering;
- 2- To adopt and implement the Special Recommendations of the FATF against terrorist financing;
- 3- To implement the relevant UN treaties and agreements and United Nations Security Council Resolutions dealing with countering money laundering and terrorist financing;
- 4- To co-operate together to raise compliance with these standards and measures within the MENA Region and to work with other international organizations to raise compliance worldwide;
- 5- 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
- 6- 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.

3/ Members and Observers

The number of MENAFATF member countries is 17, 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 Republic of Sudan², the Arab Republic of Syria, the Republic of Iraq³, 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, the Islamic Republic of Mauritania³ and the Republic of Yemen.

The observer status is granted to 12 countries, organizations, and entities namely, the Palestinian Authority², the Republic of France, the United Kingdom of Great Britain and North Ireland, the United State of America, the Kingdom of Spain², the International Monetary Fund (IMF), the World Bank (WB), the

² Joined in 2006

³ Joined in 2005

Gulf Cooperation Council (GCC), FATF, the UN Office on Drugs and Crime (UNODC), Egmont Group and Asia-Pacific Group (APG)⁴.

4/ Criteria for Accession to MENAFATF Membership

The MENAFATF 4th Plenary meeting, held in the UAE in November 2006, adopted the following accession criteria to its membership:

- 1- The applicant country should belong to the MENA region.
- 2- The applicant country should have laws promulgated to combat money laundering and financing of terrorism, or at least laws are underway to take efficient steps and arrangement to promulgate them.
- 3- The applicant country should apply or be taking steps and measures to commit to the implementation of UN conventions and Security Council Resolutions relevant to AML/CFT.
- 4- The applicant country should adopt the FATF 40 Recommendations relevant to AML, as well as the 9 Special Recommendations relevant to CFT, or any upcoming amendments.
- 5- The accession of this country should not affect the MENAFATF competent and efficient work.

5/ Criteria for Holding an Observer Status at MENAFATF

The accession criteria to MENAFATF include the following criteria of holding observer status:

- 1- The country should be outside the region, and be compliant with AML/CFT international criteria.
- 2- The applicant country should enjoy rich experience in AML/CFT, and it should define the objectives sought behind holding an observer status at the MENAFATF, the results that would benefit it, the fields in which it could ensure support and assistance to the MENAFATF in its work, as well as the expected benefits for the MENAFATF if it held an observer status.
- 3- The country should be from the region, where it applied for the MENAFATF membership which has not been decided yet.
- 4- The organization should be international or regional, and it should not work according to private sector mechanisms.

⁴ Joined in 2007

- 5- The organization should be experienced in AML/CFT and should determine the objectives sought behind holding an observer status at the MENAFATF, the results that would benefit it, the fields in which it could ensure support and assistance to the MENAFATF in its work, as well as the expected benefits for the MENAFATF if it held the observer status.
- 6- The applicant organization should have a prominent role in the field of its work.
- 7- Holding the post of an observer at MENAFATF by a country/organization should not affect the MENAFATF continuous competent and efficient work.
- 8- It should be one of the counterparts FATF Style Regional Bodies that has granted the status of "Associate Member" in FATF, and it should approve of the reciprocity principle through offering the MENAFATF the observer status.

B/ MENAFATF Structure and Funding

1/ MENAFATF Structure

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

a- The Plenary

The Plenary is composed of appointed representatives by member countries and who have an experience in AML/CFT issues. The Plenary sets the structure of the organization, and will be the decision making body of the MENAFATF.

Item 8-4 of the MOU provides that the Plenary will meet at least once a year and will have the following functions:

- To determine MENAFATF policy;
- To determine MENAFATF rules and procedures;
- To approve the annual report, work plan, and budget for the organization;
- To appoint the Executive Secretary and approve the Secretariat's structure and other functions;
- To appoint an independent auditor;
- To adopt any revisions to this MOU that may be necessary in future;
- Decide upon new members and observers;
- Consider mutual evaluation reports of members' compliance with FATF standards;
- To identify technical assistance needs of member States and co-ordinate delivery of such assistance needs of member States and co-ordinate 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 MENAFATF Secretariat, based in Manama in Bahrain, fulfills all technical and administrative functions to perform MENAFATF work, as follows – according to item 9-4 of the MOU:

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

The 4th MENAFATF Plenary also adopted the Secretariat Organizational Structure, which will best serve the operational needs of the Secretariat at this stage in order for it to carry out its responsibilities. The Secretariat is the core coordinator of all MENAFATF activities as per implementing its plans and the decisions taken by the Plenary in pursuit of the targeted objectives.

2/ Funding

Item 5 of the MOU provides that MENAFATF activities will be funded by contributions from its members on the basis agreed by the Plenary, and that the Kingdom of Bahrain, as host country for the Secretariat, has offered to meet 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.

The 3rd MENAFATF Plenary, which was held in Cairo, Egypt, in March 2006, approved that the contributions of member countries in funding the MENAFATF would be on an equal basis, according to the estimated budget the Secretariat would have submitted.

The 4th MENAFATF Plenary has approved to fund the increase in the budget over the allocated amount by the Kingdom of Bahrain on an annual basis from contributions of member countries.

In 2007, member countries started funding the increase in the budget over the allocated amount by the Kingdom of Bahrain after the 6th MENAFATF Plenary, which was held in the Arab Republic of Syria in November 2007, had approved the estimated budget for 2008, the total amount of which exceeding the contribution of the Kingdom of Bahrain.

CHAPTER TWO: MENAFATF Activities and Achievements

- A/ MENAFATF Meetings
- B/ Relationship with International and Regional Bodies and Organizations
- C/ Visits to Member Countries
- D/ Identifying Topics Related to ML/TF Operations
- E/ Implementing International AML/CFT Recommendations

Introduction

This chapter presents MENAFATF activities and achievements during 2007 both internally and externally. The MENAFATF performed many internal activities such as holding its fifth and sixth Plenary meetings and the Working Group meetings. With regard to external activities, the MENAFATF maintained its relation with the FATF, reinforced its relations with FSRBs and participated in many meetings and international conferences and seminars.

A/ MENAFATF Meetings

1/ Fifth Plenary

The MENAFATF held its fifth plenary meeting in the Hashemite Kingdom of Jordan on April 2nd and 3^d 2007 with the participation of AML/CFT experts from member countries and observers. During that meeting, the agenda items were discussed, and the most important decisions were as follows:

- Adoption of the MENAFATF annual report and the financial statements for 2006, and re-appointing Jawad Habib Office for the third time as an external auditor of MENAFATF in 2007.
- Adoption of the formation of two ad hoc committees, the first one on Designated Non-Financial Businesses and Professions (DNFBPs) and the second on Politically Exposed Persons (PEPs); and initiate the work thereof according to the tasks specified for each .
- Adoption of e-mail as a mechanism to take some decisions, after introducing the amendments suggested by member countries and the Secretariat;
- Adopting the proposal submitted by the Secretariat, regarding allowing interested countries to give short presentations on major developments in their AML/CFT regimes;
- Adoption of the MER prepared by the World Bank on the Republic of Tunisia, after introducing the necessary amendments thereto;
- Adopting the Typologies Report on "Existing and Emerging Cross-Border Payment Methods and their Vulnerabilities to ML and TF", as the first Typologies report issued by the MENAFATF and agreeing on posting it on the MENAFATF website, with thanks extended to the project leaders and the Secretariat for the efforts made in the project;
- Approving the action plan suggested by Lebanon for the "ML/TF Trends and Indicators" project, and encouraging all member countries to respond to the information request which will be sent to them by the Secretariat in this regard;
- Accepting in principle the invitation from the APG to reciprocate the observer status, and taking the necessary official measures in this regard.

2/ Sixth Plenary

The MENAFATF held its sixth plenary meeting in Damascus, the Syrian Arab Republic, on 5-6 November 2007 with the participation of representatives from member countries and observers. During that meeting, the agenda items were discussed, and the most important decisions were as follows:

- Approval of the Work Plan and the budget of 2008;
- Adoption of the translated Arabic versions of the AML/CFT Methodology for 2004 and the Handbook for Countries and Assessors in their final forms upon the correction of typographical mistakes and approval to post them on the MENAFATF website as well as the FATF website;
- Adoption of the MER of the Kingdom of Morocco, as well as the publication thereof on the MENAFATF website;
- Approval of granting the APG the observer status in the MENAFATF and exchange mutual evaluation reports therewith according to the principle of reciprocity ;

3/ Meetings of WGs and Committees

In addition to the two Plenary meetings, the MENAFATF Secretariat organized a number of meetings in 2007 for the WGs, and the DNFBPs and PEPs committees, as illustrated below:

3/1 Meetings of the MEWG

No.	Date of Meeting	Place of Meeting
1	1 April 2007	Dead Sea, Jordan
2	4 November 2007	Damascus, Syria

3/2 Meetings of the TATWG

No.	Date of Meeting	Place of Meeting
1	1 April 2007	Dead Sea, Jordan
2	4 November 2007	Damascus, Syria

3/3 The two ad hoc committees on DNFBPs and PEPs

The DNFBPs committee held its first meeting on 8-9 July 2007, and the first meeting of PEPs committee was held on 11-12 July 2007, at the Central Bank of Syria, in Damascus.

B/ Relationship with International and Regional Bodies and Organizations

The MENAFATF enjoys strong relationships with several international organizations such as the IMF, WB, FATF, UNODC, GCC, Egmont Group and Asia-Pacific Group. Indeed, all these international organizations has an "observer" status at MENAFATF. Some of them provide technical assistance to member countries and benefit them with their experiences in the fields of AML/CFT.

Regarding the relationship with FATF, MENAFATF used to have the status of observer at FATF. It participated as such in its Plenary meetings and in the meetings of its WGs as well as other events and activities organized by the FATF until June 2007.

Since June 2007, the relationship has been developed after the MENAFATF was granted the status of "Associate Member" at FATF during the 3rd FATF plenary meeting, at the eighteenth session held at the headquarters of the Organisation for Economic Co-operation and Development (OECD) in Paris, France from 27 till 29 of June 2007.

FATF has granted such status to the MENAFATF in appreciation of the great efforts made by its member countries to develop AML/CFT systems and in recognition of the efficiency and seriousness of the procedures adopted in this regard. Also, this achievement is the best way to crown the vigorous efforts made by the MENAFATF, its presidency and Secretariat, since its establishment in November 2004, under the directions and following up of member countries.

With the status of Associate Member, the MENAFATF is entitled to expand its participation in the works of the FATF by giving five of its member countries the opportunity to attend the meetings held by the FATF and its WGs, to take part in the deliberations and decisions and to express the regional perspective.

In terms of the relationship with counterpart FSRBs, the sixth MENAFATF Plenary meeting approved reciprocating the observer status with the Asia-Pacific Group within the framework of supporting and strengthening the relationships with the counterpart FSRBs.

The MENAFATF has been keen to keep track of new developments in the field of AML/CFT through the participation by the President and the Secretariat in international meetings, conferences and seminars, the most important of which are the meetings of FATF and Egmont Group.

The following table illustrates MENAFATF participations in 2007:

No.	Date	Place	Meeting
1	19-23 February 2007	Strasbourg, France	FATF meetings
2	3-4 May 2007	Ottawa, Canada	Meeting of the FATF WGTM
3	22-23 May 2007	Doha, Qatar	Fourth GCC/UE seminar on CFT means
4	28 May-1 st June 2007	Bermuda	EGMONT meeting
5	25-29 June 2007	Paris, France	FATF meetings
6	4-5 September 2007	Amman, Jordan	Role of the Arab League in supporting UN Resolutions against the proliferation of weapons of mass destruction
7	18-19 September 2007	Rome, Italy	Meeting of the FATF WGTM
8	8-12 October 2007	Paris, France	FATF meetings
9	28-30 November 2007	Bangkok, Thailand	Joint FATF/APG annual meeting on Typologies

C/ Visits to Member Countries

In order to further introduce the MENAFATF and its future role, and in order to build strong relations with member countries and discuss the aspects of cooperation in the MENAFATF's scope of work, the MENAFATF made several official visits to some member countries in 2007. During these visits, meetings were held with officials in the Ministries of Finance, Central Banks, Financial Intelligence Units and AML/CFT committees, to discuss topics related to the work of the MENAFATF and to review and develop plans and programs that were ready to be implemented.

D/ Identifying Topics Related to the Nature, Size and Methods of ML/TF Operations in the MENA Region.

One of the main objectives of the MENAFATF is to work together to identify ML/TF issues of a regional nature, to share experiences of these problems and to develop regional solutions for dealing with them.

In realizing that objective, member countries suggest Typologies topics to be discussed by the Technical Assistance & Typologies Working Group (TATWG). This is followed by the formation of sub working groups to gather information about case studies and discuss them in special workshops, thus new ML/TF techniques and methods will be identified.

1/ The Technical Assistance & Typologies Working Group (TATWG)

The TATWG was formed with the chairmanship of the UAE, and membership of Bahrain, Lebanon, Morocco, and Yemen, in addition to the following observers: IMF, World Bank, UNODC and FATF. The WG mandate are to introduce the MENAFATF members to the new methods used, as “indicators” to ML/TF operations, and to assist member countries in the AML/CFT training, in order to promote expertise and raise awareness within the scope of the MENAFATF. The WG targets all governmental sectors and the Private Sector, particularly banks and other financial institutions within MENA geographical boundaries.

The Technical Assistance & Typologies Working Group (TATWG) had two meetings in 2007. At the first one, it discussed a number of important topics, among which were the identification of the donors' efforts and accomplishments in providing TA needed by some member countries, whether through the mechanism agreed by the MENAFATF or through bilateral arrangements between donors and individual countries. The TATWG also discussed a typologies report titled "Existing and Emerging Cross-Border Payment Methods and their Vulnerabilities to ML and TF" and recommended the Plenary to adopt it. It also discussed two typologies projects proposed by two members; namely *ML Indicators and Trends* and *Untraditional ML/TF Techniques*. The TATWG recommended the Plenary to adopt the work plan of the first project.

At its second meeting, the TATWG continued the identification of donors' efforts in the field of TA provision. It also discussed the a training guide proposed by the Secretariat titled "Guide for the Different Entities on AMLCFT Training," which was aimed at developing the training mechanism of the MENAFATF, realizing the sixth objective of the MENAFATF Strategic Plan for 2007-2009. This guide is considered a reference for the MENAFATF when selecting the topics of training courses or seminars to be organized for member countries from time to time with the objective to provide ideal and adequate training to raise the level and capacity of decision makers and relevant officials in the AML/CFT field. The TATWG recommended the Plenary to take the steps necessary to adopt the Guide in order for it to be ready for implementation. The

TATWG approved a suggestion to organize training courses and programs on a regular basis whether in the margins of plenary meetings or at other dates. The first topic for a training course, the role of Financial Intelligence Units, was agreed. The TATWG was briefed on the last arrangements needed for organizing the second assessor-training workshop.

2/ Typologies Topics

The 5th MENAFATF Plenary meeting approved the recommendation of the TATWG to study a Typologies topic proposed by one of the member countries on “ML/FT indicators and trends”. This project aims at gathering and examining information about some case studies in member countries in order to make a list of the main ML/FT indicators and trends in the MENA region. On a second phase, the project team should discuss the information gathered and analyzed during a workshop before drafting a report about the results obtained.

The fifth plenary also adopted a work plan related to the said project. The Plenary called upon the member countries to answer the information request made by the project’s leaders in collaboration with the Secretariat, in order to provide them with some cases existing on their territories for analysis. The requested cases and selected categories were thus identified. Indeed, each member country of the MENAFATF was asked to provide the project’s leaders – through the Secretariat – with an initial analysis of the existing cases in which a conviction judgement was issued, in particular the following cases:

- 1- Cases under consideration before the Courts of Law;
- 2- Cases under investigation in Public Prosecution;
- 3- Cases in which the FIU gathered strong evidence about the existence of; suspicious operations and referred them to law-enforcement authorities;

E/ Implementation of FATF Recommendations on AML/CFT

the MENAFATF adopted several tools to implement FATF recommendations on AML/CFT by its member countries. The most important of these tools are the following:

1/ Identifying the Needs and Provision of Technical Assistance

TA and training are considered an important part of the MENAFATF work plan to help member countries implement international standards. Identifying member countries' needs of TA and training, and the provision of such TA are one of the major tasks fulfilled by TATWG in cooperation with the Secretariat, and in coordination with donors.

This issue is important for the MENAFATF since it enables it to identify the aspects in need of support in AML/CFT systems in member countries. Therefore, the MENAFATF will be able to help member countries remedy the deficiencies and strengthen their commitment to international standards.

On such basis, the MENAFATF has put in place a clear work strategy which covers the identification of member countries' needs (by preparing a relevant questionnaire), the study and discussion of these needs to reach an appropriate mechanism and, setting practical frameworks to provide TA and training in the best available ways.

In addition, donors are directly providing TA to member countries through bilateral arrangements.

2/ Best Practices

In view of the importance of technical studies and research which could be prepared by MENAFATF experts to combat ML and TF, the MENAFATF created three ad hoc committees composed of some member countries. Such committees performed an outstanding work in terms of studying three important subjects related to the region – namely, Hawala, Cash Couriers, and Charities – in order to disseminate the best practices which can be applied by member countries to strengthen their AML/CFT systems and legislations.

The two ad hoc committees on DNFBPs and PEPs will issue two complete reports giving important guidelines to member countries to promote their commitment to the recommendations related thereto.

3- Mutual Evaluation

Item 11-1 of the MOU provides that the Plenary will establish an ongoing program of mutual evaluations coordinated by the Secretariat in which all members agree to participate. The MENAFATF implements the first round of evaluation of its member countries to assess their compliance with the FATF 40

Recommendations on AML and the 9 Special Recommendations on CFT, by using the AML/CFT Methodology of 2004 and any amendments thereof.

The ME aims to assess the current AML/CFT systems of each country, by a group of experts specialized in AML/CFT. The ME process requires assessors to examine and review all AML/CFT laws and regulations currently applied in the country subject to evaluation, in order to evaluate their efficiency and compliance with the international standards.

a- Mutual Evaluation Working Group (MEWG)

The MEWG was created at the first Plenary under the chairmanship of Egypt and membership of Tunisia, Algeria, KSA, Syria, Kuwait and Egypt, in addition to the IMF, the World Bank and the FATF as observers. This WG aims to work with the MENAFATF Secretariat to prepare and organize the Mutual Evaluation program of MENAFATF member countries. The MEWG fulfils the following tasks:

1. Be responsible for the preparation and review of the ME procedures and process, using the AML/CFT methodology approved by the FATF, IMF, and World Bank, and the submission thereof to the Plenary.
2. Cooperatively work to ensure that there is a mutual understanding on the methodology used in accordance with the concepts agreed upon by FATF, IMF and the World Bank.
3. Prepare standards for the skills and qualifications assessors must have.
4. Prepare and update the timeline of the member countries' mutual evaluation, in cooperation with other financial institutions to avoid duplication or contradiction among members' mandates.
5. Work toward increasing assessor's effectiveness and efficiency in coordination with the style working groups.
6. Study the whole results of the member countries' mutual evaluation to identify weaknesses or root problems in the arena of combating money laundry and terrorist financing which require special attention and give proposals needed to overcome these problems. It shall then submit the resultant material to the Plenary.

b- First Round of ME

In order to verify the compliance of AML/CFT systems in the MENAFATF member countries with FATF Recommendations, the MENAFATF adopted a timetable for the ME, where two to three countries will be evaluated each year. In 2007, the MENAFATF continued the implementation of this timetable, as the MERs of Republic of Tunisia (prepared by the WB), and of the Kingdom of Morocco (prepared by the MENAFATF) were adopted and the publication policy was applied to them. Furthermore, MENAFATF made an on-site visit to the Republic of Yemen to assess the AML/CFT system applied in the country

and draft the relevant MER which will be submitted to the 7th MENAFATF plenary meeting (during 2008) for adoption.

c- Assessors' Training

To complete the ME process, some experts from member countries should be trained on the implementation of the AML/CFT Methodology of 2004. In November 2007, the MENAFATF organized the second workshop⁵ for the “Training of the Assessors” in the State of Qatar, in cooperation with the National AML/CFT committee, IMF, WB and FATF. Experts from MENAFATF member countries working in the financial and legal sector and in law-enforcement agencies to combat ML/FT attended the workshop, and the said workshop contributed to the training and qualifying of many assessors in order to help the MENAFATF implement the ME's timetable.

⁵ MENAFATF had already organized the first workshop on “Training of the Assessors” in Kuwait, in December 2005, in cooperation with the Central Bank of Kuwait, IMF, World Bank and FATF.

CHAPTER THREE: Conferences and Seminars

A/ Conferences and Seminars

B/ Dialogue with the Private Sector

the MENAFATF cooperated with many international bodies to organize several AML/CFT conferences, seminars and workshops in 2007, as follows:

A/ Conferences and Seminars

The MENAFATF took part in the organization of many conferences and seminars as follows:

- 18-20 March 2007: the MENAFATF cooperated with the Central Bank of the UAE to organize the 4th International Conference on Hawala. This conference, besides the previous three, emphasized the importance of intensifying research on Hawala operations and other informal transfer systems in order to define the priorities and enhance the understanding of these systems. The Conference also stressed the need to intensify contacts with the informal sector operators on the importance of establishing a sound and integrated system of funds transfer, to strengthen cooperation and facilitate the exchange of information between law-enforcement agencies and supervisory authorities such as to ensure the effectiveness of the applied standards.
- 4 April 2007: the MENAFATF organized a seminar for its member countries on the preparation of the ME process, in the Dead Sea, in Jordan. This seminar aimed at preparing and qualifying the countries for the ME process. In this regard, the seminar defined the ME objectives and procedures, the FATF Recommendations, the AML/CFT Methodology for 2004 and the Handbook for Countries and Assessors. The seminar also referred to the evaluation procedures of MENAFATF member countries by the IMF and the WB.

This seminar also tackled the role a country undergoing evaluation should play, including appointing a coordinator, providing the required documents before and during the on-site visit, arranging the visits schedule, filling the questionnaires by the competent authorities, and tacking post-visit procedures such as; reviewing of the first draft report and the participation of the report discussion for approval and publication.

- 19-20 July 2007: the MENAFATF cooperated with the Union of Arab Banks (UAB) in organizing the 2nd Annual MENA Compliance Officers Forum entitled “Best Practices for Compliance with the International Standards & Regulations”, in Sharm Al-Sheikh. Many important topics were discussed at the Forum, including:
 - The relation between the compliance function and internal auditing.
 - The relation between good governance and compliance in banks.
 - The role of compliance function in implementing Basel II recommendations.

- Challenges and methods of cooperation between central banks and banks with regards to compliance.
- The relation between the compliance function and the regulatory authorities.
- Presenting the relation between the compliance officer and the FIU.
- Placing a mechanism that deals with challenges facing the compliance officer.
- The relation between the Manager in charge of AML and the Compliance officer.
- Establishing a 'Know Your Client' module that suits the MENA region.
- The role of Information Technology in enhancing the compliance function

B/ Dialogue with the Private Sector

The MENAFATF seeks to cooperate with the Private Sector in AML/CFT. The MENAFATF launched a dialogue with the Private Sector through conferences and seminars that aim to promote international AML/CFT initiatives. It also cooperated with the private sector to provide TA and training programs to raise awareness and enhance communication among different cultures. During 2007, the MENAFATF partnered with the UAB, the Bankers Association of North America and the Bankers Association for Finance and Trade in organizing the Third International Conference on the "US-Middle East and North Africa Dialogue on AML/CFT", in Dubai, to complement the dialogue launched at the first and second conferences.

CHAPTER FOUR: Financial Performance

A/ Auditor's Report

B/ Financial Statements

A/ Auditor's Report



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

We have audited the accompanying financial statements of Middle East And North Africa Financial Action Task Force ("MENAFATF"), which comprise the balance sheet as at 31 December 2007, the statement of income and expenditure and the cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Responsibility of the management for the financial statements

The management of MENAFATF is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free of material misstatements, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with the International Standards on Auditing. These standards require that we comply with relevant ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of MENAFATF as at 31 December 2007, and of its financial performance and its cash flows for the year then ended in accordance with the International Financial Reporting Standards.

BDO Jawad Habib

Manama, Kingdom of Bahrain
18 March 2008

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B/ Financial Statements

Middle East And North Africa Financial Action Task Force (MENAFATF)
Balance sheet at 31 December 2007
(Expressed in United States Dollars)

	<u>2007</u>	<u>2006</u>
ASSETS		
Non-current assets		
Machinery and equipment	29,652	14,138
Current assets		
Other receivables	7,449	6,024
Cash and bank balances	59,301	181,891
	<u>66,750</u>	<u>187,915</u>
Total assets	<u>96,402</u>	<u>202,053</u>
FUNDS EMPLOYED AND LIABILITIES		
Funds employed		
Accumulated fund	9,646	142,524
Non-current liabilities		
Employees' terminal benefits	6,444	14,465
Current liabilities		
Other payables	80,312	45,064
Total funds employed and liabilities	<u>96,402</u>	<u>202,053</u>

These financial statements were approved by the Secretariat on 18 March 2008 and signed on its behalf by:


Adel Al Qulish
Executive Secretary



Middle East And North Africa Financial Action Task Force (MENAFATF)
Statement of income and expenditure for the year ended 31 December 2007
(Expressed in United States Dollars)

	<u>2007</u>	<u>2006</u>
Government funding	<u>500,000</u>	<u>500,000</u>
Expenditure		
Staff costs	(323,354)	(257,330)
General and administrative expenses	(299,875)	(224,215)
Depreciation	<u>(9,649)</u>	<u>(4,782)</u>
	<u>(632,878)</u>	<u>(486,327)</u>
(Deficit)/surplus for the year transferred to accumulated fund	<u>(132,878)</u>	<u>13,673</u>

These financial statements were approved by the Secretariat on 18 March 2008 and signed on its behalf by:



Adel Al Qulish
 Executive Secretary



Middle East And North Africa Financial Action Task Force (MENAFATF)
Statement of cash flows for the year ended 31 December 2007
(Expressed in United States Dollars)

	<u>2007</u>	<u>2006</u>
Operating activities		
(Deficit)/surplus for the year	(132,878)	13,673
Adjustment for:		
Depreciation	9,649	4,782
Changes in operating assets and liabilities:		
Other receivables	(1,425)	(4,575)
Other payables	35,248	(5,356)
Employees' terminal benefits, net	<u>(8,021)</u>	<u>8,316</u>
Net cash (used in)/provided by operating activities	<u>(97,427)</u>	<u>16,840</u>
Investing activities		
Purchase of machinery and equipment	(25,163)	(3,287)
Net cash used in investing activities	<u>(25,163)</u>	<u>(3,287)</u>
Net (decrease)/increase in cash and cash equivalents	(122,590)	13,553
Cash and cash equivalents, beginning of the year	<u>181,891</u>	<u>168,338</u>
Cash and cash equivalents, end of the year	<u>59,301</u>	<u>181,891</u>

