



Middle East & North Africa Financial Action Task Force

Second Annual Report (2006)

All rights reserved.
Copyright © 2007 MENAFATF, PO. Box 10881, Manama,
Kingdom of Bahrain.



Foreword by MENAFATF President

Dear Members, Observers, Executive Secretary and Staff

At the outset, I would like to extend my deepest thanks and appreciation to you for having confidence in me to assume the Presidency of MENAFATF for 2006. During the last year, MENAFATF made many achievements to keep up with the rapid international developments in the AML/CFT field.

Combating ML and TF crimes has gained an utmost importance at local, regional and international levels, particularly in light of economic globalization, and the growth of international financial markets. Hence the fight against these two crimes has become an important and complicated matter at the international level, as a result of the high level of professionalism demonstrated by money launderers and terrorist financiers, who are now equipped with organized mechanisms that are increasingly making use of various modern techniques and sophisticated communication systems.

In this context, the decision to create MENAFATF taken on 30 November 2004 was a regional response by the fourteen founding countries to comply with AML/CFT international standards in the MENA region, recognizing the risks posed by ML/TF in the region, which cannot be efficiently addressed and countered without cooperation among countries of the region.

Year 2005, the first year of MENAFATF, witnessed the start of establishing the MENAFATF infrastructure, the formation of the Mutual Evaluation Working Group, the Technical Assistance and Typologies Working Group, and many ad hoc committees that were also created to study topics of interest to MENAFATF, as well as the approval of membership requests submitted by the Republic of Iraq and the Islamic Republic of Mauritania.

On this occasion, it gives me pleasure to express my deepest thanks to Dr. Muhammad Baasiri for his laudable work during his tenure as President of MENAFATF for 2005.

Based on previous achievements, the infrastructure of MENAFATF was completed in 2006 with the adoption of the By-Laws which organize MENAFATF internal affairs, the first strategic plan for the period 2007-2009, the work plan of 2007, and the adoption of MENAFATF Mutual Evaluation Procedures which include the schedule of the first round of Mutual Evaluation, assessors' selection and qualifying program, Follow up process for assessed member countries, and the proposal of creating the Experts Review Team.

Achievements of 2006 were not limited to the completion of the infrastructure, as many other milestones were built on the way, the most important of which was the adoption of the Mutual Evaluation Report on AML/CFT system in the Arab Republic of Syria. This report was the first MER issued by MENAFATF;

it was prepared by an assessment team composed of MENAFATF experts who carried out an on-site visit to Syria. In this regard, I would like to extend my sincere thanks to the assessment team, which fulfilled its mission with high competence and professionalism. I would also like to express my thanks and appreciation to the Arab Republic of Syria for its full and fruitful cooperation with the team. Moreover, the MER of Bahrain, prepared by IMF, and the MER of Mauritania, prepared by the World Bank, were adopted.

In 2006, the Republic of Sudan became a MENAFATF member. Besides, the Palestinian Authority and the Kingdom of Spain obtained an observer status and MENAFATF also approved the signing a cooperation agreement with the Union of Arab Banks in the field of AML/CFT.

The achievements made so far represent a continuity of AML/CFT efforts, in line with MENAFATF strategy aimed at building an integrated AML/CFT system in the MENA region, and at developing this system to keep up with new international developments and to honor international obligations, according to the set rules and standards.

As this year witnessed important achievements that enabled MENAFATF to keep pace with successive international changes in AML/CFT, winning the appreciation of observers and international financial institutions. I am confident that Dr. Umayya Toukan, Governor of the Central Bank of Jordan, will succeed during his tenure as President of MENAFATF for 2007, in building on the previous achievements and pave the way for MENAFATF to continue achieving its objectives.

Finally, I take this opportunity to express my deepest appreciation to the Executive Secretary and his assisting team, and for his cooperation with us to strengthen the MENAFATF work.

Best Regards,

Mahmoud Abdel Latif
MENAFATF President

Preface by Executive Secretary



Mr. President,

Your Excellencies, Representatives of Member Countries and Observers,

I am honored to present the Second Annual Report on the work of MENAFATF and the Secretariat for 2006.

MENAFATF was created in November 2004, at the initiative of founding member countries, to support regional cooperation, go along with the international trend in combating these two serious crimes, and comply with international AML/CFT standards.

In the first year of MENAFATF (2005), many achievements and successes were made, and several challenges were overcome through launching a tremendous institutional work through regional and international cooperation in the field of AML/CFT.

MENAFATF embarked on its second year (2006) the continued story of success and achievements of MENAFATF, and strengthened its regional AML/CFT efforts. The most important achievements were the adoption of the By-Laws which organize its internal affairs, and the adoption of the first Strategic Plan of MENAFATF for the period 2007-2009.

Furthermore, the first round schedule of the Mutual Evaluation process was put in force after MENAFATF completed its first on-site visit in May 2006 to evaluate AML/CFT system applied by a member country, namely the Arab Republic of Syria. The assessment team was composed of experts from MENAFATF member countries and the Secretariat, prepared its report and submitted it to the 4th Plenary held in the UAE during the period from 13 to 15 November 2006, which adopted it. All concerned parties commended the high qualifications of the assessment team and the high quality of the MER. This positive feedback was like a certificate of appreciation to MENAFATF, especially that it was given by international bodies well experienced in AML/CFT and Mutual Evaluation, and by countries which have prominent international positions.

In addition, 2006 witnessed the approval of Sudan's membership request, giving an observer status to the Palestinian Authority and the Kingdom of Spain, besides the approval of signing a special cooperation agreement with the Union of Arab Banks in the field of AML/CFT, things that underline the success of MENAFATF and recognize the pioneering role it is playing in the region.

The numerous achievements made by MENAFATF over the years is an evidence that MENAFATF is steadily moving on the right track toward supporting regional AML/CFT cooperation. There is no doubt that the joint efforts and the sincere cooperation among member countries, observers, and the Secretariat, is the main driving force behind the success of MENAFATF and the enforcement its regional role.

At the end of the 2nd year of MENAFATF upon which the annual report was submitted, I would like to extend my thanks to all those who contributed to these achievements, particularly the President of MENAFATF, Mr. Mahmoud Abdel Latif for his strenuous efforts and laudable work. I would also like to thank all representatives of member countries and observers for their active contribution to MENAFATF activities, and I take this opportunity to express my sincere thanks to the Secretariat team for their remarkable efforts.

Best wishes of luck and advancement to MENAFATF, and may all efforts be crowned with success.

Adel H. Al-Qulish
Executive Secretary

Table of Contents

CHAPTER ONE: Brief Overview of MENAFATF	2
A/ Overview of MENAFATF and its Nature	3
1/ <i>Foundation and Establishment</i>	3
2/ <i>MENAFATF Objectives</i>	4
3/ <i>Founding Members Countries and Observers</i>	4
4/ <i>New Members and Observers</i>	5
5/ <i>Criteria for Accession to MENAFATF Membership</i>	5
6/ <i>Criteria for Holding an Observer Status at MENAFATF</i>	5
B/ MENAFATF Structure and Funding	6
1/ <i>MENAFATF Structure</i>	6
a- The Plenary	6
b- The Secretariat	7
2/ <i>Funding</i>	8
CHAPTER TWO: MENAFATF Activities and Achievements	9
A/ MENAFATF Meetings	10
1/ <i>Third Plenary</i>	10
2/ <i>Fourth Plenary</i>	10
3/ <i>Meetings of WGs and Committees</i>	11
B/ MENAFATF Participations	11
C/ Visits to Member Countries	12
D/ Identifying Topics Related to the Nature, Size and Methods of ML/TF Operations in the MENA Region.	12
1/ <i>The TATWG</i>	12
2/ <i>Typologies Workshops</i>	12
3/ <i>Cross Border Payment Methods</i>	13
4/ <i>Proposed Typologies Topics</i>	13
E/ Implementation of FATF Recommendations on AML/CFT	13
1/ <i>Identifying the Needs and Provision of Technical Assistance</i>	13
2/ <i>Best Practices</i>	14
3- <i>Mutual Evaluation</i>	14
a- Mutual Evaluation Working Group (MEWG)	15
b- First Round of ME	15
c- Assessors' Training	16
CHAPTER THREE: Conferences and Seminars	17
A/ Conferences and seminars	18
B/ Dialogue with the private sector	19
CHAPTER FOUR: Financial Performance	20
A/ Auditor's Report	21
B/ Financial Statements	22

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 widespread expansion of the ML phenomenon through which criminals seek to legitimize the proceeds of their predicate offenses, and the negative impacts of this phenomenon on the national economy and the banking system, in addition to their negative social and political impacts on one hand, and the widespread expansion of terrorism financing with its serious consequences in terms of terrorizing secure citizens and threatening public security on the other hand, have led to the necessity of laying and adopting international principles and standards to combat these two serious phenomena.

Therefore, MENAFATF was created at the initiative of the founding member countries to promote and implement international AML/CFT standards in the region. These countries have recognized the risks emanating from ML/TF operations in the MENA region, and recognized that these risks can only be efficiently tackled and countered through cooperation among the countries of the region.

Item 2 of the Memorandum of Understanding¹ provides that 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 in the Kingdom of Bahrain and decided to create MENAFATF. Item 8-2 of the MOU provides that MENAFATF plenary will elect a President and President Elect/Vice President who will remain in that office for one year, from amongst its members, provided that the said President and President Elect are not from the same country.

During that 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 will assume the presidency of MENAFATF in early 2007. During the 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 renewable once.

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

2/ MENAFATF Objectives

The MOU – pursuant to which MENAFATF was created – provides for six objectives which 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/ Founding Members Countries and Observers

The number of founding member countries of MENAFATF is 14 namely, the Hashemite Kingdom of Jordan, the United Arab Emirates, the Kingdom of Bahrain, the Republic of Tunisia, the Popular Democratic Republic of Algeria, the Kingdom of Saudi Arabia, the Arab Republic of Syria, 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.

Upon the creation of MENAFATF, member countries agreed that the observer status would be given to: France, United Kingdom of Great Britain and North Ireland, the USA, the International Monetary Fund (IMF), the World Bank, the Gulf Cooperation Council (GCC), FATF, the UN Office on Drugs and Crime, and Egmont Group.

4/ New Members and Observers

In 2005, the number of MENAFATF member countries increased to 16, as the Republic of Iraq and the Islamic Republic of Mauritania joined MENAFATF in September 2005. In 2006, the Plenary approved the membership of the Republic of Sudan, thus the number of member countries reached 17. MENAFATF also approved the Palestinian Authority and the Kingdom of Spain as observers.

5/ Criteria for Accession to MENAFATF Membership

The MENAFATF 4th Plenary, 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.

6/ 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.
- 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 MENAFATF the observer status.

B/ MENAFATF Structure and Funding

1/ MENAFATF Structure

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 forms the structure of the organization, and will be the decision making body of MENAFATF.

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

1. To determine MENAFATF policy;
2. To determine MENAFATF rules and procedures;
3. To approve the annual report, work plan, and budget for the organization;
4. To appoint the Executive Secretary and approve the Secretariat's structure and other functions;
5. To appoint an independent auditor;

6. To adopt any revisions to this MOU that may be necessary in future;
7. Decide upon new members and observers;
8. Consider mutual evaluation reports of members' compliance with FATF standards;
9. 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
10. To establish working groups if needed to undertake special tasks.

b- The Secretariat

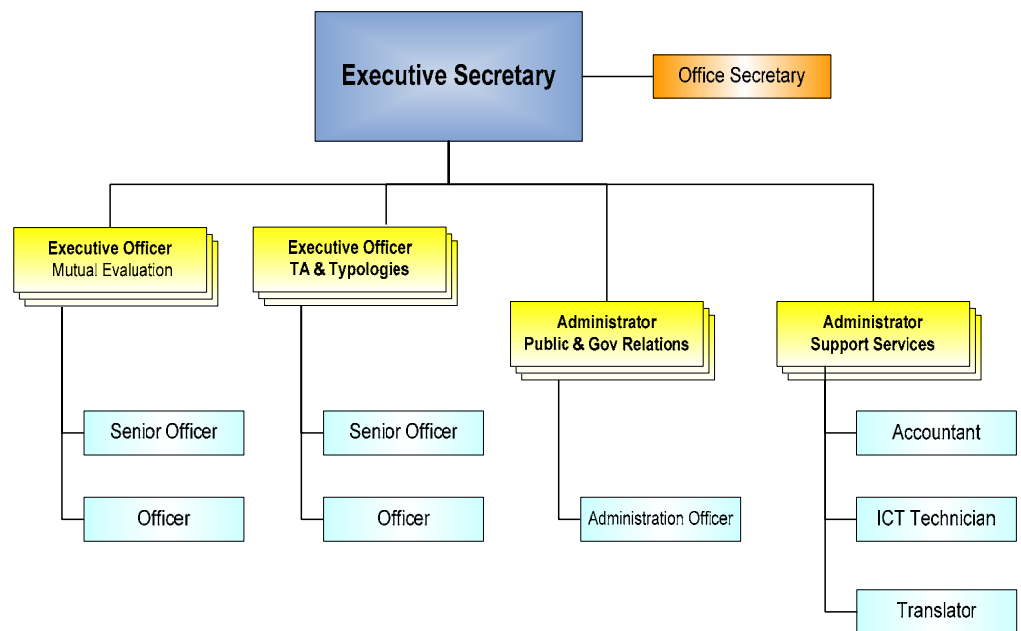
MENAFATF Secretariat, based in Manama in Bahrain, fulfills all technical and administrative functions to perform MENAFATF work, as follows – according to item 9-4 of the MOU:

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 MENAFATF 4th Plenary also adopted the Secretariat Organizational Structure which will best serve the operational needs of the secretariat at this stage. This structure can be expanded and the business needs increase and the span of responsibilities grow. However, the secretariat will be the core coordinator of all activities and shall utilize the countries assigned resources to achieve its objectives.

This organization is only a governing structure to best manage the reporting of all personnel under the responsibility of the “Executive Secretary”.

(Organizational Chart)



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 MENAFATF would be on an equal basis.

CHAPTER TWO: MENAFATF Activities and Achievements

- A/ MENFATF Meetings
- B/ MENAFATF Participations
- 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 internally and externally. In fact, MENAFATF performed many internal activities such as holding its third and fourth Plenaries and the WG meetings. With regard to external activities, MENAFATF participated in many meetings and international conferences and seminars.

A/ MENAFATF Meetings

1/ Third Plenary

MENAFATF held its third Plenary in Cairo on 20 – 21 March 2006 in the presence 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:

- Approval of the first annual report 2004-2005.
- Approval of the closing account for 2005 and the reappointment of Jawad Habib to audit MENAFATF accounts for the second time.
- Reaffirming the principle of equal contribution in financing the budget among member countries on the basis of the estimated budget prepared by the Secretariat in the future.
- Applying for the status of “Associate Member” and authorizing the President of MENAFATF to take the relevant necessary actions.
- Approval of the 2006 budget.
- Adoption of The Memorandum of Accession (MOA) as a form for accession in order to emphasize the existence of an explicit and legal obligation by the new member countries to abide by the requirements of the MOU.
- Approval of Sudan as a new MENAFATF member.
- Granting the Palestinian Authority the status of “Observer” until it finishes forming the government and discussing the requirements for signing the MOU.

2/ Fourth Plenary

MENAFATF held its fourth Plenary in Al Ain city in the UAE, from 13 to 15 November 2006, in the presence of representatives from member countries and observers. At the meeting, the agenda items were discussed, and the most important decisions taken were as follows:

- Approval of the Strategic Plan for the coming period of three years, from 2007 to 2009.
- Approval of the Work Plan of 2007.
- Approval of the Secretariat Organizational Structure.
- Approving the By-Laws as amended by the Plenary.

- Approving the budget of 2007
- Approving MENAFATF ME procedures
- Approving the accession criteria.
- Approving the admission of the Kingdom of Spain as an observer.
- Approving the MER of the Arab Republic of Syria.
- Approving the MER of the Islamic Republic of Mauritania.
- Approving the MER of the Kingdom of Bahrain
- Approving the signing of a special agreement with the Union of Arab Banks.

3/ Meetings of WGs and Committees

In addition to the two Plenaries, MENAFATF Secretariat held many meetings for WGs and the charities committee in 2006, as illustrated below:

3/1 Meetings of the MEWG

	Date of meeting	Place of meeting
1	19 March 2006	Cairo, Egypt
2	3-4 July 2006	Tunis, Tunisia
3	12 November 2006	Al Ain, UAE

3/2 Meetings of the TATWG

	Date of meeting	Place of meeting
1	19 March 2006	Cairo, Egypt
2	12 November 2006	Al Ain, UAE

3/3 Charities Committee

In 2006, the Committee held only one meeting on 19 March 2006 in Cairo, to discuss the latest developments which occurred, such as the interpretative note of the SR VIII issued by FATF on the regulation and control of the non-profit sector.

B/ MENAFATF Participations

MENAFATF has been keen to keep track of new developments in the field of AML/CFT through the participation of 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 2006:

	Date	Place	Meeting
1	12 – 17 February 2006	Cap Town	FATF meetings
2	4 – 5 April 2006	Washington	Meeting of WGEI at FATF
3	14 – 16 June 2006	Cyprus	Egmont meeting
4	19 – 23 June 2006	Paris	FATF meetings
5	9 – 13 October 2006	Canada	FATF meetings
6	28 – 30 November 2006	Shanghai	Workshops on typologies of FATF and EAG

C/ Visits to Member Countries

In order to further introduce MENAFATF and its future role, and in order to build strong relations with member countries and discuss the aspects of cooperation in MENAFATF's scope of work, MENAFATF - represented by the Executive Secretariat - made several official visits to some member countries in 2006. 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 MENAFATF and to review and develop plans and programs which 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 MENAFATF is 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.

In realizing that objective, member countries suggest typologies topics to be discussed by the TATWG. This is followed by the formation of sub working groups to gather information about practical cases and discuss them in special workshops, thus new ML/TF techniques and methods will be identified.

1/ The Technical Assistance & Typologies Working Group

The TATWG was formed with the chairmanship of the UAE, and membership of Bahrain, Lebanon, Morocco, and Yemen, in addition to the following observers: the IMF, the World Bank, and the UNODC. The working group's tasks are to introduce 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 MENAFATF. The Working Group targets all governmental sectors and the private sector, particularly banks and other financial institutions within MENA geographical boundaries.

2/ Typologies Workshops

Workshops on typologies are aimed at receiving materials and information which help legislators in MENA countries to develop and enhance AML/CFT laws and regulations, and help stakeholders such as supervisory authorities, law enforcement agencies and FIUs, to strengthen their role in AML/CFT.

On 16 November 2006, in the margin of the 4th MENAFATF Plenary, the Secretariat, in cooperation with the Special Investigation Commission (Lebanon's FIU), held the first workshop on typologies where two SIC experts

presented a number of practical cases. The workshop was attended by a host of member countries' representatives and observers.

3/ Cross Border Payment Methods

The 2nd MENAFATF Plenary adopted the topic "Existing/Emerging Cross Border Payment Methods and their vulnerabilities to ML/TF" as the first topic of MENAFATF typologies, upon Lebanon's suggestion. The work plan of the project was prepared, in addition to a questionnaire to gather information from member countries and submit them for analysis to the project team. In cooperation with the project leaders, MENAFATF Secretariat prepared a draft report of typologies on this topic, and it was discussed at the 4th MENAFATF Plenary. The Plenary decided that member countries should provide the Secretariat with their remarks on the report before adopting it in the fifth Plenary and publishing it on MENAFATF website as a useful tool which could benefit both the private and the public sectors.

4/ Proposed Typologies Topics

Many countries suggested, at the 4th Plenary, six topics to be studied by MENAFATF as topics of typologies in the coming period, namely:

- the Value-Added Tax (VAT) evasion and its relation to ML/TF,
- the requirements of the UN Convention against Organized Crime (Palermo Convention) and its relation to FATF recommendations,
- the UN Security Council Resolutions, from Resolution 1267 to the latest resolution,
- the Weapons of Mass Destruction (WMD) and their relation to money launderers and those who finance terrorism,
- Electronic crimes, and
- ML/TF trends & indicators.

E/ Implementation of FATF Recommendations on AML/CFT

MENAFATF adopted many 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 MENAFATF work plan to help member countries to implement international standards. Identifying member countries' needs for TA and training, and the provision of such TA are one of the major tasks fulfilled by the Secretariat in cooperation with the TATWG, and in coordination with international organizations and countries providing this assistance.

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

Therefore, 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.

The said questionnaire was used to identify the needs and requirements of member countries in terms of TA and training which can be summarized as follows:

- To raise governments' and Parliament's awareness on the level of importance of passing project or draft laws related to AML/CFT.
- To train and increase the level of awareness of the judges, prosecutors and law enforcement officers.
- To train banking, financial and customs employees on risk assessment.
- To train and increase the awareness level in the banking supervisory bodies, capital markets authorities and insurance sectors.
- To participate in drafting laws and legislations related to anti money laundering and combating terrorism financing.

2/ Best Practices

In view of the importance of technical studies and research which could be prepared by MENAFATF experts to combat and prevent ML and TF operations, 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.

Lebanon's suggestion of creating two new ad hoc committees on Designated Non-Financial Businesses and Professions (DNFBPs), and on Politically Exposed Persons (PEPs) was presented to the fourth MENAFATF Plenary. The Plenary requested from the Secretariat to prepare a paper on these two issues and submit it to MENAFATF fifth Plenary in Jordan, to discuss it and take the appropriate decision in its regard.

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. 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 Mutual Evaluation aims to assess the current AML/CFT systems of each country, by a group of experts specialized in AML/CFT. The Mutual Evaluation 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, and Kuwait, in addition to the IMF, the World Bank and the FATF as observers. This WG aims to work with MENAFATF Secretariat to prepare and organize the Mutual Evaluation program of MENAFATF member countries. The MEWG fulfills the following tasks:

- To prepare draft Mutual Evaluation procedures and process, using the AML/CFT methodology issued by the FATF, IMF, and World Bank,
- To work on forming a mutual understanding of the methodology in accordance with the concepts agreed upon by FATF, IMF and the World Bank,
- To set standards for the skills and qualifications assessors must have, and
- Prepare the timetable of the member countries' mutual evaluation, in cooperation with other financial institutions to avoid duplication or contradiction among their mandates.

The MENAFATF 4th Plenary held in November 2006 approved the new version of the Mutual Evaluation Procedures suggested by the Secretariat, in light of the remarks submitted by the MEWG at the 4th WG meeting held in Tunisia on 3 and 4 July 2006.

The Mutual Evaluation procedures included the formation of an Expert Review Team who meets the required standards. This group is aimed at assisting the Secretariat and assessors to verify the quality and consistency of MERs.

b- First Round of ME

In order to verify the compliance of AML/CFT systems in MENAFATF member countries with FATF Recommendations, MENAFATF adopted a timetable for the Mutual Evaluation, where two to three countries will be evaluated each year. The first round of this schedule started in April 2006 when the AML/CFT system applied by the Arab Republic of Syria was evaluated. The MER was prepared by the assessment team, and was approved by the 4th MENAFATF Plenary. Furthermore, MENAFATF approved the MER prepared

by the IMF on the Kingdom of Bahrain, and the MER prepared by the World Bank on the Islamic Republic of Mauritania. The three MERs were published on MENAFATF website www.menafatf.org.

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 December 2005, MENAFATF organized a workshop for the "Training the Assessors" in Kuwait, in cooperation with the Central Bank of Kuwait, the IMF, the World Bank and FATF. This workshop contributed to the qualifying of many assessors. Since MENAFATF will perform an increasing number of evaluations in the coming period, it has planned to hold another workshop to which all MENAFATF member countries will be invited in 2007, in close coordination with the authorities involved in the organization for this workshop, namely the FATF, the World Bank and the IMF.

CHAPTER THREE: Conferences and Seminars

A/ Conferences and Seminars

B/ Dialogue with the Private Sector

Introduction

MENAFATF cooperated with many international AML/CFT bodies to organize several conferences, seminars and workshops in 2006, as follows:

A/ Conferences and seminars

In 2006, MENAFATF took part in the organization of many conferences and seminars, in collaboration with some bodies, as follows:

- 22 - 23 March 2006: MENAFATF cooperated with the Union of Arab Banks to organize the First International Conference on the "US-Middle East & North Africa Dialogue on AML/CFT", in Cairo. Many important issues were discussed at the conference, including:

- Private sector development and implementation of core AML controls.
- The Principals of ML/TF Risk Management and Assessment.
- The Role of Islamic Banks in AML/CFT Process.

This conference was aimed to launch a direct dialogue between the financial sectors in the U.S. and MENA region in order to: (i) raise awareness on terrorist financing and money laundering risks; (ii) facilitate a better understanding of effective practices and programs to combat such risks; and (iii) strengthen implementation of effective AML/CFT controls.

- 2 - 6 April 2006: MENAFATF cooperated with the World Bank to organize the workshop "Train the Trainers" in Cairo. The workshop was aimed at building and strengthening the institutional capacity to develop an AML/CFT system through comprehensive training. The program of this workshop provided the participating countries with the necessary tools, skills and knowledge to build and consolidate legal and control frameworks and to execute the work plan in the country.

- 6 - 7 July 2006: MENAFATF organized, in cooperation with the UAB, the First Forum of Compliance Officers, in Sharm Al-Shaikh. Many important topics were discussed at the Forum, including:

- Identifying the role of compliance officers, and the challenges and difficulties they face.
- Designing and implementing efficient compliance programs to combat ML/TF.
- Creating a unified "Know Your Customer" form in the MENA region.
- Discussing the required international standards to identify the customer's risk profile and their importance in the AML/CFT comprehensive strategy.

This forum was aimed at discussing the axes of commitment and studying the developed and modern strategies in addition to the new

methods and tools used to address compliance officers' challenges, create communication opportunities, and liaise with compliance officers and financial intelligence units.

- 11 - 13 December 2006: the MENAFATF cooperated with the UAB to organize the Second International Conference on the "US-Middle East & North Africa Dialogue on AML/CFT", New York, to complete the dialogue launched in the first international conference mentioned above.

B/ Dialogue with the private sector

MENAFATF seeks to cooperate with the private sector in AML/CFT. In fact, MENAFATF launched dialogue with the private sector through its cooperation with the UAB, by creating a body composed of MENAFATF, the Union, the Bankers Association of North America, and the Bankers Association for Finance and Trade. This body aims to create a real partnership between MENA commercial banks and US commercial banks for AML/CFT purposes, promote international AML/CFT initiatives, cooperate to provide TA and training programs to raise awareness and upgrade communication among different cultures.

CHAPTER FOUR: Financial Performance

A/ Auditor's Report

B/ Financial Statements

A/ Auditor's Report



BDO Jawad Habib
Public Accountants
Management Consultants
CR No. 10201

5th floor UGB Tower
PO Box 787 Manama
Kingdom of Bahrain
Telephone (973) 17530077
Facsimile (973) 17530088
www.bdojawadhabib.com

INDEPENDENT AUDITORS' REPORT TO 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 2006, 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 2006, 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
15 March 2007

95896

B/ Financial Statements

Middle East And North Africa Financial Action Task Force (MENAFATF)
Balance sheet at 31 December 2006
(Expressed in United States Dollars)

	<u>2006</u>	<u>2005</u>
ASSETS		
Non-current assets		
Machinery and equipment	<u>14,138</u>	<u>15,633</u>
Current assets		
Other receivables	6,024	1,449
Cash and bank balances	<u>181,891</u>	<u>168,338</u>
	<u>187,915</u>	<u>169,787</u>
Total assets	<u>202,053</u>	<u>185,420</u>
FUNDS EMPLOYED AND LIABILITIES		
Funds employed		
Accumulated fund	<u>142,524</u>	<u>128,851</u>
Non-current liabilities		
Employees' terminal benefits	<u>14,465</u>	<u>6,149</u>
Current liabilities		
Other payables	<u>45,064</u>	<u>50,420</u>
Total funds employed and liabilities	<u>202,053</u>	<u>185,420</u>

These financial statements were approved by the Secretariat on 15 March 2007 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 2006
(Expressed in United States Dollars)

	Year ended 31 December <u>2006</u>	Period from 30 November 2004 to 31 December <u>2005</u>
Government funding	<u>500,000</u>	<u>500,000</u>
Expenditure		
Staff costs	(257,330)	(194,915)
General and administrative expenses	(224,215)	(174,997)
Depreciation	<u>(4,782)</u>	<u>(1,237)</u>
	<u>(486,327)</u>	<u>(371,149)</u>
Surplus for the year/ period transferred to accumulated fund	<u><u>13,673</u></u>	<u><u>128,851</u></u>

These financial statements were approved by the Secretariat on **15** March 2007 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 2006
(Expressed in United States Dollars)

	Year ended 31 December <u>2006</u>	Period from 30 November 2004 to 31 December <u>2005</u>
Operating activities		
Surplus for the year/period	13,673	128,851
Adjustment for:		
Depreciation	4,782	1,237
Changes in operating assets and liabilities:		
Other receivables	(4,575)	(1,449)
Other payables	(5,356)	50,420
Employees' terminal benefits, net	<u>8,316</u>	<u>6,149</u>
Net cash provided by operating activities	<u>16,840</u>	<u>185,208</u>
Investing activities		
Purchase of machinery and equipment	(3,287)	(16,870)
Net cash used in investing activities	<u>(3,287)</u>	<u>(16,870)</u>
Net increase in cash and cash equivalents	13,553	168,338
Cash and cash equivalents, beginning of the year/period	<u>168,338</u>	-
Cash and cash equivalents, end of the year/period	<u>181,891</u>	<u>168,338</u>

