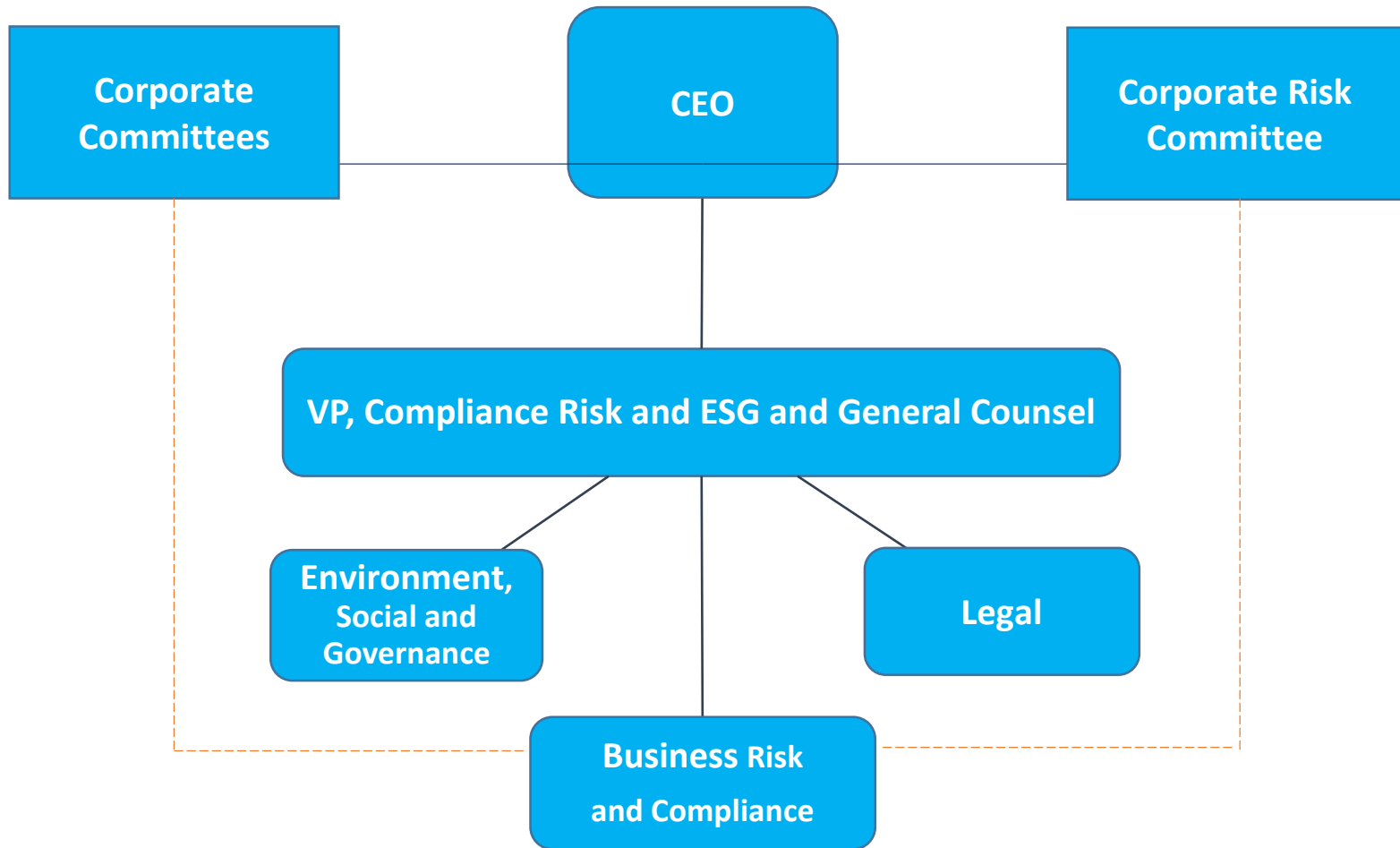


# Illicit Financial Flows: a Private Sector Perspective

Lima, March 14, 2019

# IFC Non-financial Risk Management Structure



# CBR

is a **one-stop shop** for providing advice on management and mitigation of **non-financial risk** (except ESG and operational risk)

# CBR Subject Matter Areas

## Integrity Function

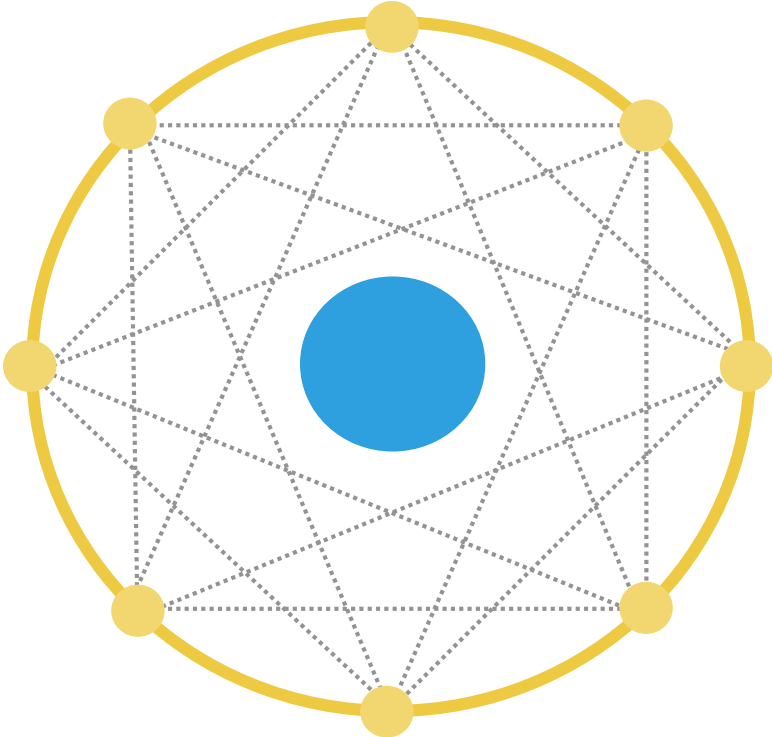
- AML/CFT
- Integrity Due Diligence (IDD)/ Screening
- IFC Liaison to INT
- WBG Sanctions
- Offshore Financial Centers (OFCs)
- Tax Behaviors & Practices
- Market Conduct (Mobilization)
- Operational Conflicts of Interest
- Compliance Aspects of Nominee Directorship
- Material Non-Public Information (MNPI)
- IFC Policies & Procedures
- IFC Board & Stakeholder Engagement
- Data Access & Controls

# Three Subject Matters related to IFF

1. Integrity Due Diligence (IDD)
2. AML/CFT
3. Tax conduct

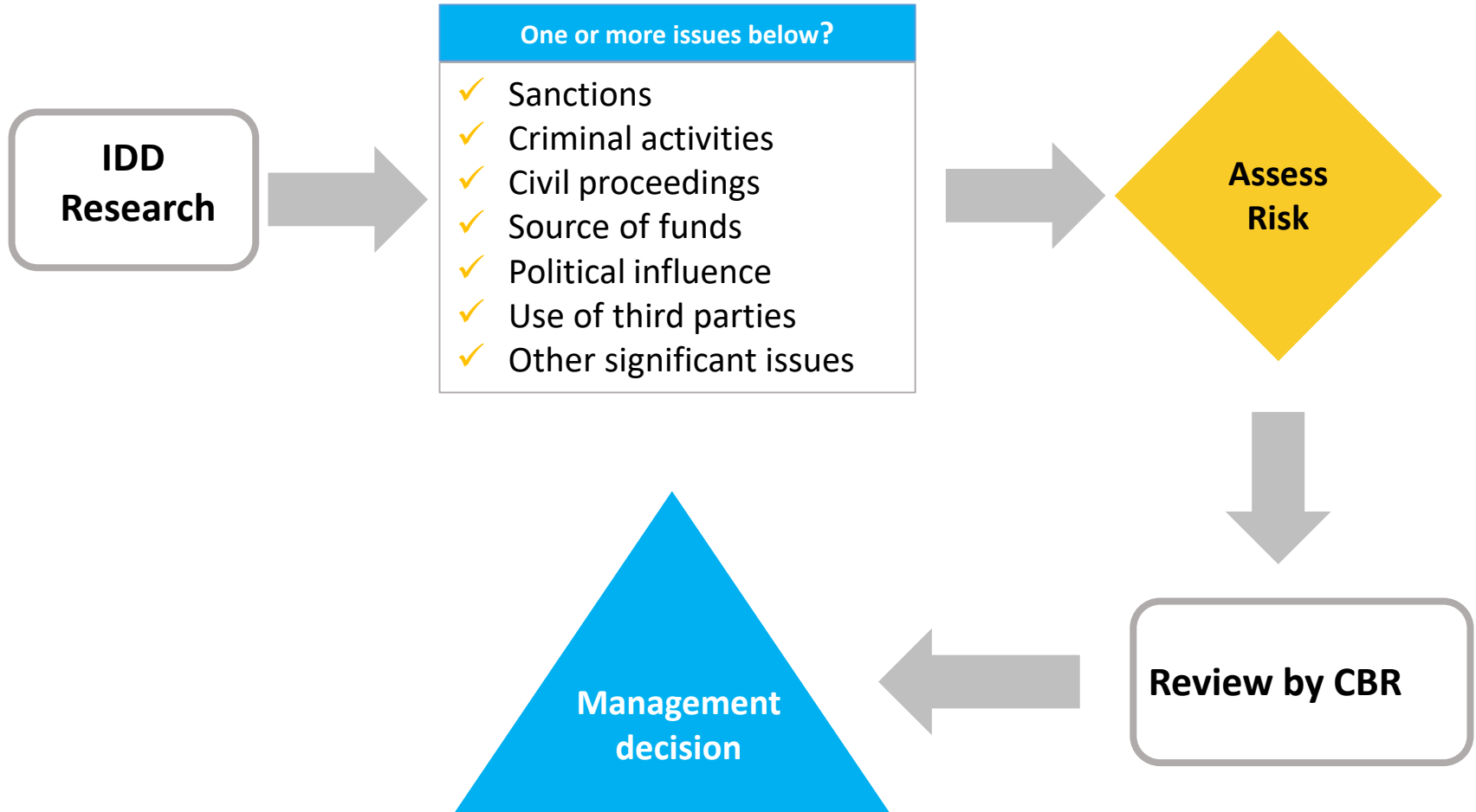
These three subjects are closely interrelated

# IDD Process



*Deep Analysis*

# IDD Process II



# Integrity

## Progress

- Significant corruption scandals and enactment of new laws have put corruption on top of the agenda
- Change in perceptions
- Development of compliance programs

## Challenges

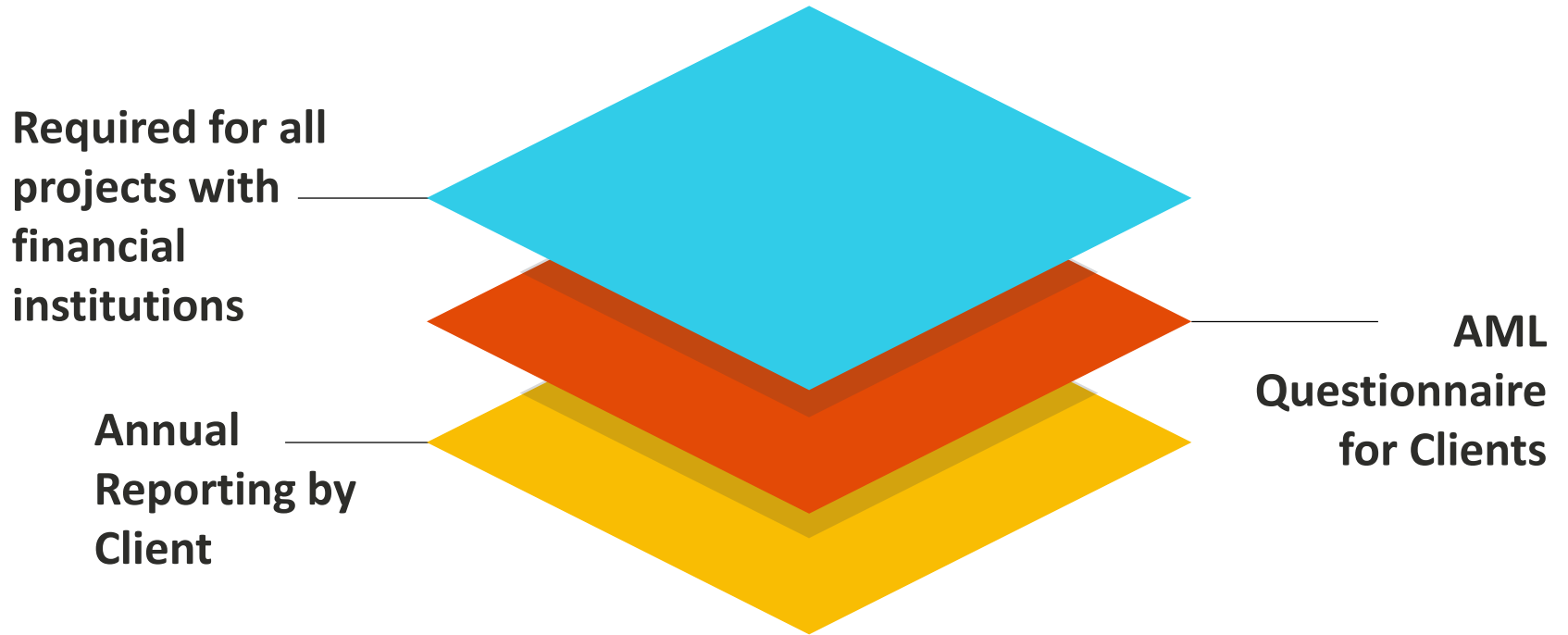
- Significant gap between compliance on paper and compliance in practice
  - Check-the-box approach
  - Old ways of doing business
  - Developing compliance culture takes time and compromise



# AML/CFT: Due Diligence over Financial Institutions (FIs)

- IFC frequently uses FIs to reach a larger number of beneficiaries
- IFC relies on the AML/CFT controls of the FI to conduct DD over beneficiaries
- Assessment of AML/CFT controls includes ensuring that:
  - The FI has AML/CFT procedures/controls that are aligned in international standards, industry best practices and applicable laws
  - Controls are adequately implemented

# AML/CFT: Due Diligence over Financial Institutions II



# AML/CFT

## Progress

- **Important progress during the last few years**
  - The work of FATF and FRSBs has produced significant improvements at the jurisdictional and FI level
  - Increased awareness of added value of AML/CFT compliance
  - Improvements in compliance programs

## Challenges

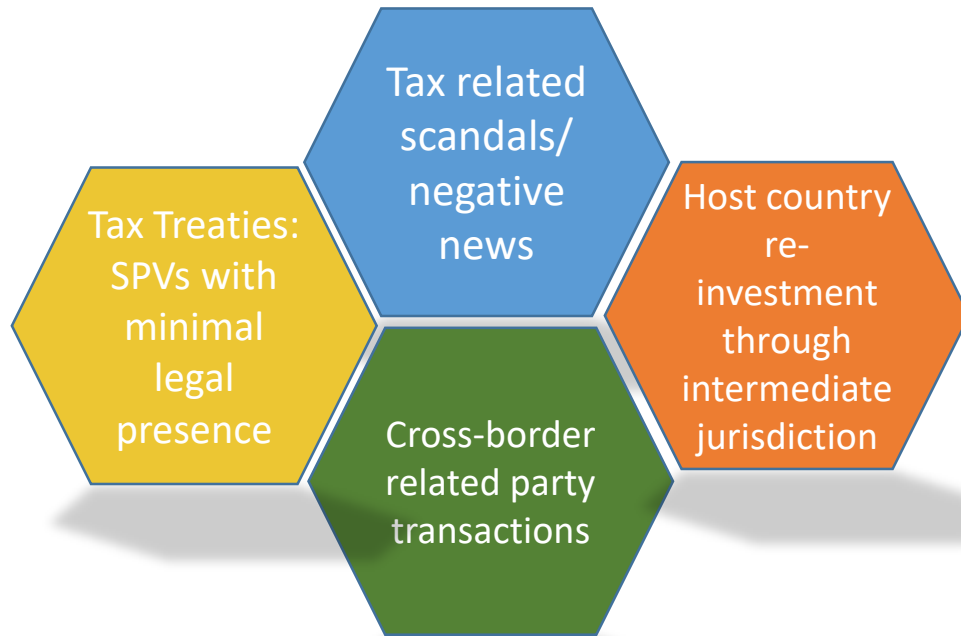
- **Implementation of a true risk-based approach**
  - Client risk profile and enhanced due diligence measures
- **Transaction monitoring systems**
  - Technology is key
- **Capacity gaps and governance issues**
- **Trade-based money laundering**

# Tax Conduct: OFC Policy and Tax Due Diligence

- OFC policy
  - Assessment of business rationale for the use of intermediate entities
  - Restricts the use of intermediate entities in jurisdictions rated as NC or PC by the Global Forum
- Tax Due Diligence Pilot
  - Systematic review of tax structures and practices
  - Risk-based approach focusing on tax collection at the project host country

# Tax Conduct: OFC Policy and Tax Due Diligence

**TDD Pilot  
Focus:  
Four Key  
International  
Tax Issues**



# Tax Conduct

## Progress

- Improvements in tax governance at the corporate level as a result of international standards
  - EOIR
  - AEOI
  - BEPs

## Challenges

- Difficulties to keep up with new creative structures
  - One loophole closes and another one opens
- Challenges by some developing countries in implementing international standards
  - Resources and capacity

# Key Takeaways

- 1.** We do not only manage risk, whenever possible, we push clients to raise their standards
- 2.** Commitment from clients is essential, they need to see the added value
- 3.** This approach to integrity is an essential part of IFC's DNA; this is what enables us to make our operations sustainable, even in challenging markets
- 4.** We don't always get it right