

Ajith Nivard Cabraal: Sri Lanka and its battle against money laundering and terrorist financing activities

Keynote address by Mr Ajith Nivard Cabraal, Governor of the Central Bank of Sri Lanka, at the Commonwealth Secretariat Programme on Financial Investigations Training, Colombo, 22-26 January 2007.

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Your Excellencies, Ladies & Gentlemen,

It is a great pleasure that I welcome you to the inaugural ceremony of this conference and extend to all overseas participants and representatives a very warm welcome to our country. I am also very happy to be able to share a few thoughts with you at this Forum about the progress Sri Lanka has made in its battle against Money Laundering and Terrorist Financing activities.

Sri Lanka has given serious recognition to the need for preventing money laundering and combating the financing of terrorism in view of their adverse consequences both economic and social. In fact, Sri Lanka has been a victim of terrorist financing and suffered immensely by its consequences. As we all know, money laundering and financing of terrorism promote criminal activities, endanger financial system stability and misallocate resources into non-productive investments. The Central Bank of Sri Lanka has a special concern about these adverse consequences, as it has a mandate to maintain financial system stability together with economic and price stability. It is in this context that the Central Bank has pledged, in its policy statement, "Road Map: Monetary and Financial Sector Policies for 2007 and Beyond" that it would expand the work of Financial Intelligence and actively investigate and take actions to combat money laundering and terrorist financing.

In the years 2005 and 2006 Sri Lanka made considerable headway in this regard. The main actions in this context were the enactment of three laws, namely, The Convention on the Suppression of Terrorist Financing Act, The Prevention of Money Laundering Act, and the Financial Transactions Reporting Act. The FTR Act created the institutional body of the FIU with regulatory powers and a mandate to formulate policies and guidelines to meet the Financial Action Task Force (FATF) 40 + 9 recommendations. This legislative package was the outcome of an in-depth consultation initiated by an inter-ministerial committee which engaged the stakeholders such as the banks and professional bodies. In the preparation of the legislation, the inter-ministerial committee closely liaised with the IMF in order to ensure that legislation complied with the Financial Action Task Force 40+ 9 recommendations.

Even prior to the enactment of this legislation in Sri Lanka, there have been certain punitive measures in place, to discourage individuals from using the country's financial institutions for Money Laundering and Financing of Terrorism activities. These measures were taken under the Exchange Control Act; the Customs Ordinance and the Banking Act. Pending the enactment of the new legislation, the Central Bank too issued as far back as 2001, 'Know Your Customer' (KYC) guidelines to all banks and urged adherence when dealing with clients and counterparties. We cannot however be satisfied with the results because it is unlikely that terrorism activity in particular, on the scale that has been unleashed in Sri Lanka, could have taken place if these measures to combat terrorism financing and money laundering had in fact been effective. We believe, the measures introduced have only marginally deterred terrorism financing from delivering such ill-gotten funds to destabilize our country, particularly before 9/11/2001. As many know, Sri Lanka has been crying foul for many years about fund raising for terrorism, taking place in many countries, where the funds were used to procure and supply weapons to wage terrorist activity in our country. Sadly, our pleas were not taken too seriously. But the world took greater note of this scourge after 9/11/2001.

Fortunately for us, post 9/11, anti money laundering and terrorism financing measures were pursued with vigour at international level and these processes have been evolving rapidly in recent years. The international community has witnessed the use of increasingly sophisticated methods to curtail the move of illicit funds through the financial systems across the globe. Sri Lanka, naturally, was keen to support this global effort and soon established a comprehensive legal and institutional framework for anti-money laundering and combating the financing of terrorism. Hence, the enactment of the legislation by our country's legislature is welcomed by all of us who value stable economies and peaceful societies. Due to the scale and magnitude of the heightened global interest in Money Laundering and Terrorist Financing, international obligations too, required many countries to introduce

legislation. In fact, in terms of their international obligations the legislative approach pursued by many countries, including Sri Lanka, has been in the context of Security Council Resolution 1373 dealing, *inter alia*, with financing of terrorism and the International Convention on the suppression of financing of terrorism. These agreements have, to a great extent, unified the world in its fight to meet this challenge and, I dare say, the closing of ranks among the countries of the world, would have certainly helped to curtail terrorism which may otherwise have reached unimaginable levels, thereby threatening world peace in general and the world economy in particular.

Let me now say a few words about our own efforts in this sphere of activity.

The initial phase of establishing a comprehensive framework for anti money laundering and combating financial terrorism in Sri Lanka was focused on the preparation of the draft legislation. With the passage of legislation, our efforts were then directed towards setting up of the infrastructure for the Financial Intelligence Unit (FIU). We now have a fully operational FIU established in the Central Bank, the apex institution in the financial system in Sri Lanka, to meet both its local and international obligations.

As you may be aware, Sri Lanka is presently engaged in a valiant effort to control many terrorist activities waged by the LTTE, a Group acknowledged worldwide as a Terrorist movement. USA, Canada, the EU and many other countries have banned this movement due to flagrant human rights violations and inhuman acts of terror. They have been designated as a terrorist group by most countries in the western hemisphere. As has been recognized worldwide, the most effective manner to undermine and defeat terrorist activities is to stop or curb its funding sources. Notwithstanding the bans, the LTTE has extended its tentacles in North America, the European Union and Australia. In response, those countries and nations are today taking meaningful steps to stop these fund raising activities and taking the perpetrators of such crimes to justice and we deeply appreciate such moves. The Government of Sri Lanka is dedicated to winning the support of all countries in this regard through the exchange of information on a bi-lateral basis which would enhance bi-lateral co-operation through a structured exchange of information. Only last week, one such initiative with Switzerland was commenced where fruitful discussions were held to establish a framework and modalities for structured co-operation. It has also been recognized that efforts to combat the financing of terrorism require jurisdictions to expand the scope of the anti money laundering framework to include non profit organizations and, in particular, some dubious charities. This is to ensure that such organizations are not used, directly or indirectly, to finance and support terrorism. We are in possession of information of how certain so-called charities have been able to even hoodwink international agencies to donate funds to them for, seemingly, charitable or humanitarian causes, but which have, instead, been channeled for the upkeep of terrorist cadres and the provision of supplies to assist the terrorist effort.

Natural disasters such as the Tsunami have also unwittingly lent a humanitarian face and ample cover to such activities. We, therefore, urge the co-operation of global and regional countries to trace and eliminate such funding programmes and to be extremely vigilant when dealing with organizations which may well be front organizations to finance terrorism. In this respect it need hardly be emphasized that financial intelligence sharing is fundamental to this strategy. The FTRA enables the FIUs to enter into agreements with other FIUs to exchange information. Obviously therefore, as our FIU moves forward, we will give this matter our highest priority.

The International Monetary Fund has estimated that the aggregate amounts of funds laundered in the world could range between 2 to 5 per cent of the global GDP. Given the estimated global GDP of approximately USD 48 Trillion, this could range between USD 1 - 2.4 Trillion. Accordingly, by any estimate the size of the problem is gigantic and merits the focus of all jurisdictions. Missions from agencies such as the IMF and World Bank have identical goals in terms of money laundering and combating the financing of terrorism. We are indeed very pleased to note that there are also many other agencies outside the IMF and WB taking an active role, and often working jointly in an effort to achieve these common goals. We commend these efforts.

Together with the establishment of a legal and institutional framework for anti money laundering and combating terrorist financing, it is equally important to raise public awareness on issues pertaining to money laundering and financing of terrorism, and introduce more effective ways of preventing such actions by sharing experiences of other countries. It is not for nothing that the phrase "prevention is better than cure" has been coined. It is therefore our fervent hope that this workshop will, in the next 5 days achieve this objective and also establish a framework for a regional dialogue to:

- Share the lessons of success and failure;

- Identify specific problems common to countries of the region;
- Discuss future challenges common to participating countries particularly in the context of effective programmes already implemented to fight money laundering and terrorist financing,
- Identify practical means of sustaining economic development and maintaining financial system stability in the face of such terrorist threats.

While thanking the Commonwealth Secretariat and all those who have made this Conference possible, we also commend our new FIU for the initiatives it has taken to organize this international event, so early in its existence. We urge you to discuss the many issues confronting our respective countries and attempt to learn from each other as well as from the broader experiences from international experts and develop our skills and expertise. We also look forward to your report at the conclusion of your deliberations.

Let us also offer all of you our continued co-operation in your collective endeavors to combat money laundering and terrorist financing activities.

Finally, we wish you a successful learning experience and hope that your efforts will effectively contribute to the prevention and suppression of money laundering and financing of terrorism.