



Financial sector integrity

The importance of promoting financial sector integrity

It is estimated that the criminal proceeds laundered worldwide outnumber by far the amount of official development assistance each year. Estimates vary broadly, but they range from 2 to 5% of global GDP. Under the branding of “Illicit Financial Flows” (IFF), financial integrity has gained increased international attention, with initiatives to combat IFF being launched in various fora, such as the UN and the OECD.

Against this backdrop, there are three fundamental reasons to promote financial sector integrity:

- First, only a financial sector that is trustworthy is able to play its role in providing finance to the economy.
- Second, financial integrity contributes to better economic governance, which in turn increases transparency in the public and private sectors of the economy.
- Third, the global fight against money laundering and the financing of terrorism is of crucial interest to Switzerland as one of the most important financial centers with global significance.

How to strengthen financial sector integrity

Financial sector integrity has two aspects: the origin of the funds entering the financial sector, and how the funds are used. The most efficient approach to strengthen financial sector integrity is to avoid tainted funds from entering the legal financial system and to ensure funds are not used for illegal purposes. The major tool in this regard is the application of an internationally recognized AML/CFT framework. The international standard on AML/CFT is the recommendations of the Financial Action Task Force (FATF) that are applicable globally. A robust AML/CFT framework reduces the risks to the in- and outflow, is internationally verifiable, and guarantees a level playing field for jurisdictions. As it directly safeguards the financial sector, it constitutes the inner ring of defense.

Another, more holistic approach starts at the very origins of illegal money (outer ring of defense) by directly targeting predicate offenses to money laundering such as corruption, trafficking in humans, drugs, arms, and wildlife, tax evasion and tax fraud. This is a wide field of activities with many actors involved, and SECO cannot address most of it directly due to the limitations of its mandate. By fostering

SECO Division

Macroeconomic support
(WEMU)

Key partner agency

IMF
Egmont Group

WEMU global programs

IMF AML/CFT TTF
ECOFEL II

Total budget

IMF: USD 30'700'000
ECOFEL: CHF 10'639'904

SECO contribution

IMF: CHF 6'250'000
ECOFEL: CHF 2'500'000



transparency in public finance management, however, SECO indirectly addresses areas such as corruption.

SECO's role in addressing financial sector integrity

The cornerstone of SECO's approach to financial sector integrity is the support it provides for countries to establish robust AML/CFT regimes. Robust AML/CFT regimes are a necessary but not sufficient condition for a country to become or stay integrated into the global financial system. Support provided by SECO through its implementing partners in strengthening the inner ring of defence includes support to national risk assessments on AML/CFT risks; legal and regulatory reforms to adapt national legal frameworks to international AML/CFT standards; facilitation of information sharing between jurisdictions; and training and capacity building for staff in the administrations in charge.

Another element of SECO's engagement is supporting efforts to increase transparency in the extractives sector and commodity trading and international taxation, elements of the outer ring of defence mentioned above. The main instrument in this regard is the Extractive Industries Transparency Initiative (EITI) with the objective to improve transparency of commodity trades in EITI countries and contribute to a global transparency standard for companies buying oil, gas and minerals from resource-rich countries. Furthermore, SECO contributes to strengthen national capacities to properly tax corporates and citizens, through international taxation and engages in activities to reduce Base erosion and profit shifting (BEPS). The OECD and the World Bank are noteworthy partners in this respect.

The existing project portfolio in the thematic area of financial sector integrity consists currently of contributions to two global programs.

Through its engagement in the **IMF's AML/CFT Thematic Trust Fund**, WEMU supports one of the leading global initiatives for technical assistance on AML/CFT. The Trust Fund operates in different thematic areas such as Legal Drafting, National Risk Assessment, National Strategy, Structures and Tools (FIU), Structures and Tools (Supervision), Correspondent Banking Relationships, Effectiveness, Illicit Financial Flows, Tax Evasion Legal Framework, Tackle proceeds of corruption and Authorities' Understanding. The TTF is global in its reach, and demand is much higher than delivery capacities at the IMF. Therefore, countries are selected by applying criteria such as i) money laundering and terrorism financing risk, ii) systemic importance of the country in the global financial market, and iii) political will of the country's authorities.

The **Egmont Group Center of Excellence and Leadership (ECOFEL)** supports the building up of capacities at financial intelligence units (FIU) in order to strengthen the measures on AML/CFT at the national and international level. FIUs are the critical link between the financial system and law enforcement agencies. They are well positioned to identify and trace illicit financial flows, proceeds of crime, as well as detect new trends and methods of ML/FT. ECOFEL seeks to advance the quest for enhancing the FIUs' role by providing support to the development and deepening of the autonomy, effectivity, and innovation at FIUs.

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Growth-promoting economic policy



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